

SPHINX



CATECHISM

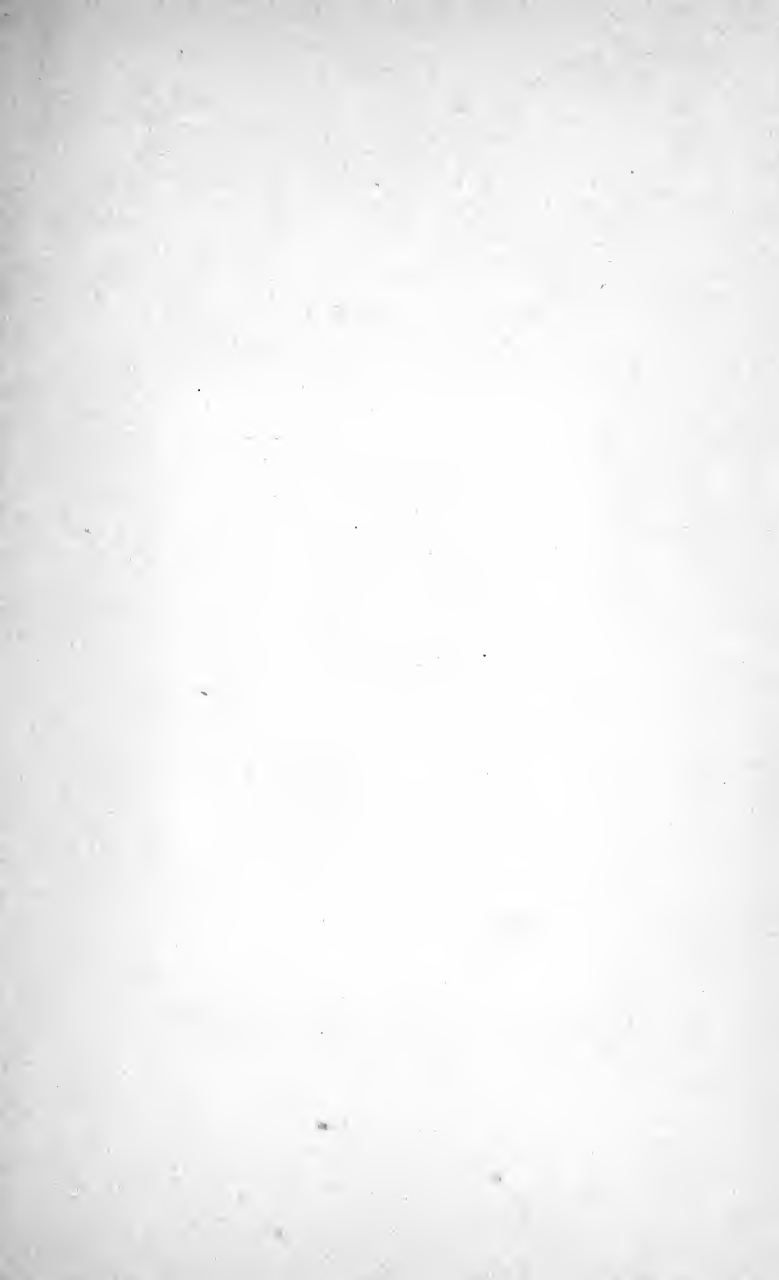


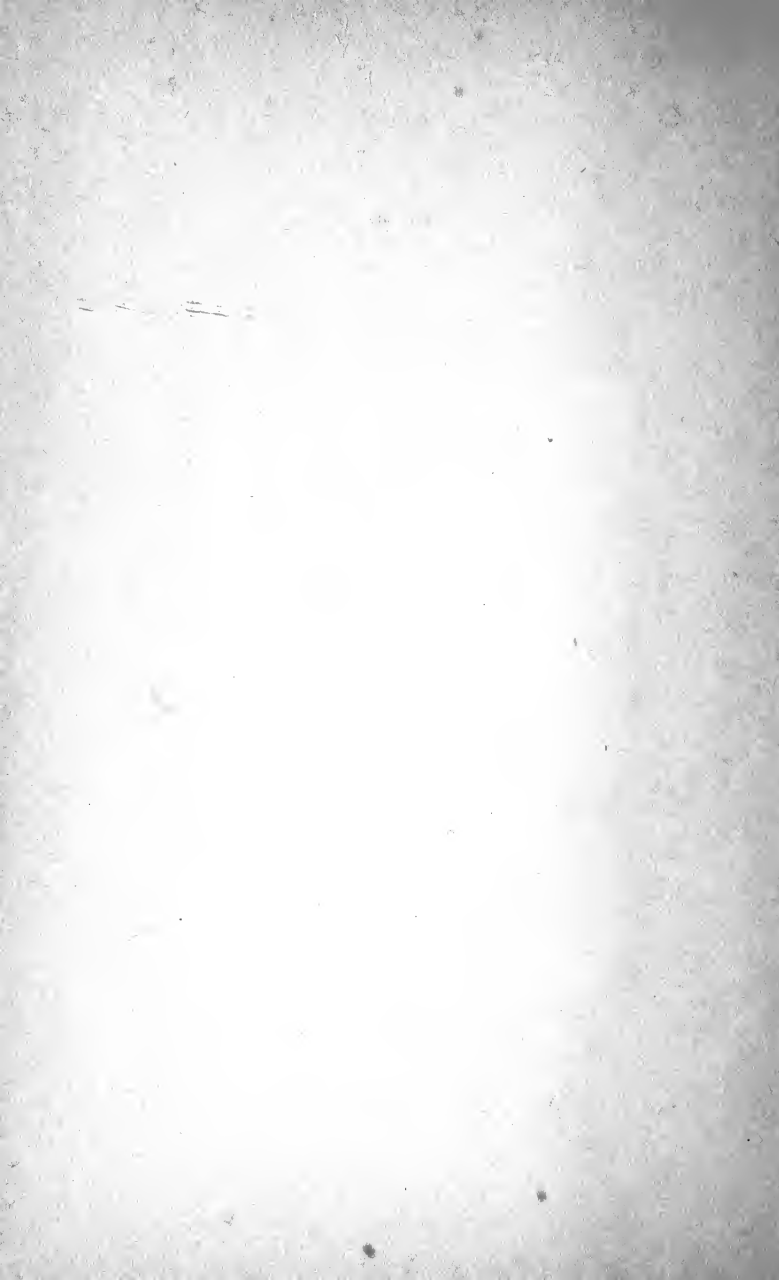
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The SPHINX CATECHISM

By HENRY RAWIE

"For the needy shall not always be forgotten:
the expectation of the poor shall not perish
forever."—*Psalms 9-18.*



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The Sphinx Catechism.

CHAPTER I.

INTRODUCTION.

"Nothing is impossible to Industry," said one of the seven wise men of Greece more than twenty-five hundred years ago, and thousands of years before his time the same truth had doubtless been revealed to other wise men, and the problems of industry continue to perplex the wise men of today.

One nation after another has grown, from the bare earth to wealth and power, only to fall in ruin and decay. Industry was driven to hovels, while irresponsible power was enthroned in palaces and was worshiped in temples.

Over the ruins of Empire the brooding and Sardonic Sphinx has been propounding her riddle, offering to give to man a heaven upon earth if he answers correctly, but failing to answer he will be destroyed.

The cold shadow of this stone image of destruction is now beginning to cover the world with its desolation, and we must make haste or we will likewise perish. To her, to this

Sphinx of History, to this silent monument, over the graves of fallen Empires, we put questions that the riddle may be answered and our civilization may be saved,

Why does Industry itself become impossible, and why do its blessings wither and waste? Is it because Industry is never rewarded with wealth?

CHAPTER II.

CLEARING THE GROUND.

1 Q. What is the riddle of Industry?

A. That everyone may find profitable work.

2 Q. What do you mean by profitable work?

A. That common labor should receive wages which buys a comfortable living according to modern standards, getting the advantage of new machinery and inventions, and get an additional sum as wages which will enable it to buy its share of income-producing property.

3 Q. Do capitalists oppose laborers by reducing wages and thus take away the profits from work?

A. No; capital comes into existence because new and more profitable work has been provided, and when capital opposes labor it does so on account of the riddle of industry.

4 Q. Will capital only employ labor when it is profitable to do so?

A. Capital employs labor only when it is profitable to do so, and any scheme which hopes to employ labor unprofitably is contrary to

common sense. When labor is employed at tasks that do not pay, then something is taken from profitable labor to make up the loss.

5 Q. Is there a riddle of industry outside the laborer who is willing to work, and outside the capitalist who is as willing to employ him?

A. Yes.

6 Q. Is this outside power made up of what Socialists call the capitalistic system of production for profit?

A. No; production for profit is the only kind of production desirable or possible.

7 Q. If capitalists are wholly interested in making money, if labor is willing to have them make money, and if capitalists make more money when wages are high, there must be something wrong with money?

A. When labor and capital are idle, money is also idle, and if something is wrong with money it must be with the circulation of money and not with the kind of money or with the quantity of it.

8 Q. How about land which someone is required to buy and own before modern industry is possible? Is the land system responsible?

A. Perhaps.

9 Q. Why perhaps; is there something else?

A. Yes; there are laws of nature by which the distribution of wealth is regulated and controlled.

10 Q. But why do you say the land system, perhaps?

A. Because land is also idle when labor, capital and money are idle, and the land system is responsible if it alone interferes with the natural laws which regulate the distribution of wealth.

11 Q. Have individual landowners the same interest in high wages that capitalists have?

A. Yes, because the gain to the landowner must arise from surplus wages above the cost of living.

12 Q. Don't landowners gain from the intrinsic quality or value of the soil?

A. No; nature will not permit a price to be paid for something she furnishes without cost; the price of land arises by taking price away from labor and capital.

13 Q. Land value does not then arise on account of the location or quality of land?

A. No; land value arises from the unequal distribution of wealth by creating a price for land which would otherwise become higher prices for labor.

14 Q. Landowners, as a class, are more powerful than any other class in the community, because they control the earth itself, and may drive people off the earth, a few at a time, it is true, but they have such power if they chose greedily and ignorantly so to use it?

A. Landowners have some such power to a limited degree.

15 Q. How limited?

A. Limited by their own need for labor. They themselves would perish in seeking to thus injure labor, and they may only gain from the activity of labor.

16 Q. Do you mean that modern methods of production affect the individual landlord the same as the capitalist, and he is thereby prevented from directly interfering with labor?

A. Yes; the single landlord may often oppress labor in seeking pay for the use of land, and in seeking more than labor may give, but such landlords are the exception and are not the rule in business.

17 Q. You hold that landlords have no personal interest in keeping labor from using land?

A. No more hope for gain than has a capitalist in shutting up his factory.

18 Q. But when factories close on account of bad markets, the idle men could restore the markets again if they could get access to land?

A. Laborers on free land must have markets, and merely to increase the output from free land would make a bad market worse instead of better.

19 Q. But idle labor might use idle land to supply their own wants and thus escape beggary and starvation?

A. Idle labor, in considerable numbers, could not escape starvation on free land. The riddle of the centuries has a deeper meaning than to allow laborers to exist as well-fed animals.

20 Q. But would not a temporary escape to free land so relieve the market from idle labor as to start the wheels of industry in dull times?

A. It would not, because there is not only idle land for labor at such times, but idle money and idle factories would be willingly put into free operation if the dull market could thereby be relieved.

21 Q. Is the problem one of markets which must be fostered by protective tariffs and by special legislation for the benefit of capitalists and landowners who may thereby employ labor?

A. No.

22 Q. If labor had access to all unused land, would not poverty disappear?

A. It would not, unless it was temporary and among a few people, because the present population of the world can only escape poverty by maintaining and by extending our system of enormous production and transportation.

23 Q. If each landlord put his land to its best use, properly conserving our natural resources, would such a system solve the riddle of the Sphinx?

A. It would not.

24 Q. If capitalists, financiers and landowners, combined into one gigantic trust, were to use land to its best advantage, supply labor with the best appliances and furnish all the money that was required to pay the highest wages, would such a system solve the problem?

A. It would not.

25 Q. Labor depends upon capital to be fully employed, and capital must have land first?

A. True.

26 Q. But capitalists and landowners will only employ labor when it is profitable to do so?

A. Yes.

27 Q. Then we seem to have the money question to deal with. Does money become so scarce on account of waste and extravagance that labor fails accordingly in finding employment?

A. No; extravagance and speculation is limited by natural law to the guilty only, and the evil effects of speculation never reach the mass of mankind.

28 Q. But laborers, it is claimed, are becoming daily more lazy, inefficient and extravagant, are doing less work for the same money, and seem to be destroying the very foundations of industry?

A. Laborers are doing all the work which is being done, and they create and sustain all the wealth in existence.

29 Q. But the fountain of money which employs labor must run dry in hard times?

A. No; the fountain can not run dry if labor is employed, for it is being perpetually renewed each day by labor.

30 Q. If the fountain of money can always be kept full by employing labor, where does the trouble begin?

A. The trouble begins when profits run dry, which is another matter.

CHAPTER III.

PROFITS.

31 Q. Is the riddle of the centuries based upon profits? If they are permitted to fail, will civilization fail?

A. Yes; progress means an increase in wealth, and an increase in wealth means that a daily surplus above requirements is constantly created by labor, and unless this daily surplus is maintained, civilization is in danger of collapse.

32 Q. How is it possible for a civilization which requires centuries to build to be thus set upon its apex and fall, when the world is teeming with wealth?

A. The answer is, that the world has no vitality unless its wealth is fulfilling the purpose of civilization.

33 Q. But may not progress be carried on from day to day without profit?

A. No; progress implies tomorrow instead of today, and unless provision is being made each day for tomorrow and for the future, society must relapse into barbarism.

34 Q. Then the vitality of society is based upon its future, rather than upon its present existence?

A. Yes; we might live, for example, as though the world were to come to an end next week, and to do so would destroy the value of all property depending upon the future, while it would enhance the price of property, which would give to us a few more days of mad and whirling excitement.

35 Q. I gather from this that when profits run dry it is notice to civilization that its world is coming to an end?

A. True.

36 Q. In a primitive society, where people barter their products, they are not so limited in their pursuits by profits, are they?

A. The moment the laborer lays by a store of food for future use, and uses his spare time to build a shelter for his family, such an advance is derived from the surplus above his daily needs, and is wholly profit.

37 Q. Are profits vital because laborers who fail to share in them are forced to live from hand to mouth and have no hope for the future?

A. Yes.

38 Q. Can you state in a few words how profit has become so vitally important?

A. By the introduction of money in place of barter.

39 Q. You mean that with barter there would naturally arise a fair distribution of profits, while, with money intervening, such distribution may be prevented?

A. Yes.

40 Q. Upon what particular quality in money does profits depend?

A. Profits depend upon the fact that money itself is more desirable than any other thing.

41 Q. Can you explain this?

A. Money must be made more desirable than anything else, or it would not exchange with or be preferred to other things.

42 Q. But money came gradually into use, and this fact should have corrected any faults in its evolution?

A. This fact did correct faults in the evolution of money itself, but does not prevent our interference with the circulation of money at any time.

43 Q. You say, however, that profit is based upon the fact that the people desire money more intensely than they desire anything else?

A. Yes; and this demand for money is in itself an evolution of desire.

44 Q. Please explain the rise in demand for money, beginning with primitive society.

A. When trade made its first beginning one commodity was used as a medium of barter because it was more desirable than another.

45 Q. Because each one wanted that particular commodity and would always give up something else in order to get it?

A. Yes; and upon this basis of desirability a commodity used for a time as money would be superseded by another more universal in its demand among the people.

46 Q. Then the commodity used as money became a measure of value to people who wanted the things they did not produce?

A. Yes, to a degree, but utility was the first idea to arise in the mind from the use of barter money. The commodity used as money acquired the usefulness of every other commodity for which it would exchange, and therefore this use idea, which is naturally confined to a defi-

nite object, spread so as to include money, and the want of money embraced the want of every object for which it would exchange.

47 Q. The idea we have of value is merely an idea of the utility of each and every object which money will buy?

A. Yes; a hungry man is driven to seek food, and among savages, when such hunger is once satisfied, they never stir until hunger again drives them.

48 Q. But how has this savage, with a single appetite, been induced to change?

A. Different tribes of savages had different environments, and hence they had different kinds of hunger.

49 Q. The mixing of savage tribes creates the first advance in desire; that is to say, a savage wanting mere quantity in food advanced to a savage who had a desire for quality?

A. Yes; and as nature was bounteous, savages could develop the beginning of new desires with but little work, and when new wants first began they multiplied with what they fed upon.

50 Q. The plan of nature is, then, to add to human hunger rather than to appease the appetite?

A. Yes; as new desires multiply and as the means to gratify them increase, new hunger is born in a myriad of forms, and at the same time money develops, takes upon itself an objective value, and becomes the only power by which each and every one of a thousand kinds of hunger may be speedily and easily supplied.

51 Q. So the modern commercial craze for money is wholly natural?

A. It does not follow that because men fight upon the deck of a sinking ship and trample down the women and children in order to save themselves, that such brutality is natural; so also with the modern struggle for wealth, the desperate need for money will revive all the savage instincts and creates a savage struggle to get money, which should be easily secured on account of industry and morality.

52 Q. Money comes into the problem because it alone provides the means to satisfy thousands of new desires, and the hope of securing money causes men to endure, to suffer and to labor in the modern world?

A. Yes; and when common laborers are unable to gratify new and higher desires, and when they must be content with quantity rather than quality of satisfaction, nature forces them again to become indolent, careless and irresponsible savages.

CHAPTER IV.

INTRODUCTION OF MONEY.

53 Q. You answer that profit is the key to the arch of industry, and that the introduction of money has made the problem of profits the riddle of the Sphinx?

A. Yes; the circulation of money not only makes the problem of profits mysterious and complex, but it makes the growth of profits equally difficult to explain.

54 Q. How does it happen that profit depends upon money rather than upon goods sold?

A. Money being so much more desirable than any other particular commodity, the owner of money will not part from it unless he can get more money when he sells than when he buys.

55 Q. The profit proposition is based, therefore, upon the fact that everything labor produces must continually and regularly sell for more money than it cost?

A. Yes; or, to be more precise, there should be a greater demand from labor in every line than the cost of supply in each line, so that

labor may always sell its product to other laborers in every market for more than it cost.

56 Q. If this condition could be made universal, and if prices were held to such a standard, it is hard to discover what more would be required to solve the labor problem. Is there a natural law by which everything labor can produce will always sell for more than it cost?

A. Yes, there is such a law.

57 Q. Will you state the law as simply as you can?

A. It is the law of a division among laborers whereby a few laborers produce more than they need and have a surplus which will supply as many more laborers.

58 Q. If half the laborers produce the food and clothing which everyone must have in about equal quantity, then you have twice as many buyers as you have sellers, provided the buyers can get the money?

A. You have hit upon the point where profit is linked up with the money, namely, the buyers must get money first before the price of goods has any meaning; goods must be able to sell, and in order to sell the buyers must get money first.

59 Q. Suppose the buyers get money by working for it, then there is twice as many dollars in the food and clothes market as was paid to labor for making them?

A. Yes; and that situation provides a selling price higher than cost price for everything labor produces.

60 Q. So far we have a selling price that is double the cost price, provided there has been a previous distribution of money among consumers?

A. The paradox of political economy arises on this account and is as follows: Labor must first produce goods before it can secure money to buy them, but goods must first be sold to labor before money may circulate to pay for them.

61 Q. The paradox appears to be a stone-wall difficulty; how is it explained?

A. It is explained by credit; labor works for capital on credit, and produces about one month's supply of goods before it is paid. This lag in wages enables goods to be sold on credit and paid for as labor is being paid.

62 Q. This credit, however, involves a considerable quantity of money, and since goods sell

for twice the first cost, there must be some law by which a corresponding volume of money goes into circulation before it returns from the consumer?

A. The quantity of money in circulation is of the greatest importance, and is controlled by natural law.

63 Q. What is the first or primary set of facts one needs to understand before the quantity of money may be taken up?

A. The quantity of money is not easily explained, because the amount of money increases by a process of growth which is evidently controlled by the natural laws which bring about growth in the organic world.

64 Q. But we know that organic growth springs from seeds properly planted, without being required to know how or why. May it not be the same with money?

A. Yes; but money has been so mistakenly discussed that the main difficulty is to remove the old ideas.

65 Q. What is the first error concerning quantity of money?

A. It is that prices of goods are determined by the quantity of money.

66 Q. Is not this correct?

A. No, because the quantity of money is determined also by prices of goods.

67 Q. How can you affirm that prices depend upon the quantity of money, and then reverse the problem and say that the quantity of money depends as well upon prices?

A. It is like a chicken producing an egg and the egg produces another chicken. On this account the money question has caused an endless discussion over prices which in effect is discussing which comes first, the egg or the hen. Price is not a simple fact, but is a compound one, like weight, and depends upon the combined effect of the action and reaction of money, the egg and the hen and the hen and the egg.

68 Q. It is commonly believed that price is the result of demand and supply?

A. It would be more to the point to say that price was demand and supply. When demand and supply is coupled together you have the action of money in the hands of buyers and its reaction in the market establishing prices.

69 Q. That is clear so far, but to get to our point. A given volume of money in circulation

will establish a given standard of prices for a certain volume of goods. Now it is maintained that this quantity of money is no more important than to help along trade. It is claimed that a greater volume of money would only change prices and require more money for the same result, while a lesser quantity would only reduce prices.

A. The weakness of such a theory is that credit is given no consideration as a circulating medium. Cash and Credit are attached to each other, and partake of each other's activity, like Siamese Twins; they move together or fall in common.

70 Q. The advocates who hold quantity of money lightly should be asked to explain at what point the quantity gains or loses its importance. If less money merely reduces prices without interfering with industry, then the question is, how much less? and if more money only changes prices and does not alter civilization, again where do we stop?

A. Yes, because there is an absolute standard upon which nature builds or destroys, and growth is governed by this standard. There is a given nucleus around which an increase grows until the size of the unit causes it to divide into

two, and to each new unit a similar growth arises, and each again divides into two.

71 Q. Do you mean that money obeys some such law of fertility as exists throughout the organic world?

A. Yes; increase of money seems to be governed by a law of compensation or balance. Growth is built in uniform layers around a nucleus from the environment until the power of attraction in the nucleus is balanced by the quantity it may attract, and when the growth in size equals the attraction, the entire mass divides exactly into equal parts, also dividing the nucleus, and in so doing the attraction is restored until the weight or size again balances, to again divide.

72 Q. Has this anything to do with the quantity of money? Has a dollar of money such nuclear attraction by which it grows and divides into two dollars?

A. It has; and credit is the vital substance which continually rejuvenates the circulation or growth of money.

73 Q. However interesting this may appear, it gets away from the point to be explained, namely, the relation which the quantity of

money bears to the quantity of things to be purchased?

A. The quantity of money establishes such relation; prices for labor change into money, and this money creates other prices, and returns to again become new wages, thus making money the undistributed middle of the system.

74 Q. What are the factors controlling the quantity of money?

A. There are four factors, the unit of money, the unit of labor, the unit of time and the object.

75 Q. That is simple enough; labor must earn money by working during certain periods of time, and in doing so certain objects are produced which are bought with the money. Quantity of money is therefore fixed by labor and time, and by spending the money earned?

A. So far correct; but much labor works without the work resulting in a definite object, and in such case the money itself must contain the stored or expended labor force for a certain time.

76 Q. The quantity of money is therefore based upon labor time rather than upon the objects which result from a part only of this labor time?

A. No and yes; the quantity of money must be increased by nuclear units of labor expended during certain units of time in desirable work, but this expenditure of labor needs an objective. Nature will not permit the volume of money to increase permanently unless the greater volume gives rise to greater wealth. The increase of money is similar to growth in the organic world, where seeds represent money, and nature can not permit the reproduction of more seeds except for growing more plants.

77 Q. You mean that wealth grows when money is properly spent and invested, rather than from the niggardly saving of seeds which are never planted?

A. Yes; money is made up of units, and each money unit represents not only a labor unit, but also a unit of time, and from this fact springs all the difficulty in explaining the money question.

78 Q. You mean the difficulty of explaining the quantity of money, because the quantity depends upon two or more factors?

A. Yes; difficulty in explaining how money and credit must grow or decay in company with each other; money in the hands of the buyer is the force which puts all other forces

into activity, the same as any other physical force, and a quantity of force depends upon a unit of force moving in a given direction during a given time.

79 Q. If quantity of money is governed by the laws which govern quantity of physical forces, it should not be difficult to make the subject clear?

A. It is difficult, nevertheless, because we really have no method of determining the quantity of physical force except by weight, and we have no conception of growth in physical forces like the problem confronting us in money.

80 Q. It is clear that physical forces depend, for example, on time and speed; that a given force, like a horse power, is computed in a certain weight lifted one foot in one minute, or half the given weight twice as far in the same time, or twice the weight in half the distance in the same time?

A. The illustration is correct; and in order to understand forces we must have fixed standards of weight and time and distance, while with money all standards are movable except alone the single units of money, represented by dollars, dimes and cents.

81 Q. Suppose a given value must move or be consumed by the circulation of money, where do the forces come in for the purpose of calculating quantity?

A. A given price represents the force to be overcome like weight, and an equal sum of money represents the force of labor exerted during a given time to overcome the price.

82 Q. That is to say, the price of wheat represents its social gravity or weight, and the wheat money represents the labor and time required to produce wheat and bring it to the market?

A. No; at this point error usually creeps in. The price of wheat, like the weight of iron, is determined not by wheat labor alone, but by labor and credit of all kinds all over the world, just like the weight of iron is counter-balanced in gravity by the weight of the earth.

83 Q. That would be clearer if it could be illustrated with a particular price, especially the price of labor itself?

A. Take two laborers, for example, getting different prices for labor at the same time, say, a ditcher getting two dollars a day and a lawyer at a trial of a case getting ten times as much, or twenty dollars a day.

84 Q. This is an example of greater labor force exerted in the same time, and therefore the lawyer accomplishes more than the ditcher.

A. Your answer is the common one, that labor of one kind is superior to labor of other kinds, but the laws of nature seem to hold to the contrary, and they do not allow greater prices for labor because one kind of labor is superior to another, but require equal labor units to be measured in equal units of time, which means that lawyer time is paid and not lawyer labor.

85 Q. What is the difference if a lawyer gets ten times as much as a ditcher? Why split hairs about the results being a saving in time instead of a superiority of labor?

A. It is just this very splitting difference that investigators fail to see, and therefore they fail to solve the money question or the labor question.

86 Q. But if the ditcher at two dollars a day is paid for results, and the lawyer at twenty dollars a day is also paid for results, the ditcher may become a lawyer and thus even things up?

A. Not to lose sight of the division of a hair, nature makes time saving the distinction and

refuses to consider the quality of labor, because the results secured by the lawyer over the ditcher may not be owing to lawyer labor at all, but may be owing to natural time-saving advances in civilization, in which the ditcher has a right to share without becoming a lawyer or without desiring to be one.

87 Q. Do you mean to say that nature provides an equality in labor and would pay each and every workman alike?

A. No; what nature requires is that the gains of civilization shall accrue to mankind, and although rewards are provided which create lawyers from ditchers, it is not done for the glorification of John Smith, Esq., Attorney at Law.

88 Q. But if nature permits the gains from progress to be monopolized by individuals whom she herself rewards, wherein lies the difference?

A. Nature does not recognize superior individuals, but only equal individuals in great groups. A group of one hundred thousand persons is required before an average man emerges from the mass of mankind. What I am seeking to explain is this, that nature measures the gains in civilization by a time

standard, and not by a quality of humanity standard.

89 Q. So let it be now explained. But if nature is so particular, how does it happen to be otherwise in the division among individuals where the hardest and meanest work returns the least pay?

A. If you assume that rewards are now based upon quality of brain or brawn in the individual, you are mistaken. Inferior workmen are not now contributing to superior intelligence, but our own interference with the natural order of development creates unequal systems or standards of pay for work, as well as unequal distribution of other wealth.

90 Q. At any rate, greater results produce greater rewards in money to fortunate or lucky individuals. The fact itself remains, common labor gets common pay, however such pay is measured, whether by savings in time or by inferior humanity?

A. If you will consider the gains made by invention, by new discoveries and by inheritance from the past, you should be able to appreciate how important it is that the circulation of money should be able to distribute such gains to all mankind, and not confine them to special classes of men, who would

thereby gain additions in wealth to add to superior intelligence, and would thus impose uncalled-for burdens upon the weak.

91 Q. The gains from labor-saving machinery is one of the important problems which needs to be explained. Where does labor come in when benefits from machinery are to be distributed?

CHAPTER V.

MACHINERY.

A. What you call labor-saving machinery is not labor-saving, but time-saving. Labor is confined to very narrow limits, and when considered alone labor may accomplish but little, as you may realize by comparing the labor of carrying a message of ten words around the earth on foot, with sending the message by telegraph.

92 Q. But with telegraphing the labor has been greatly reduced in quantity?

A. Again you are mistaken, because you look at the question from the wrong standpoint. What happens from the introduction of the electric telegraph is a very tremendous increase in messages to be carried, whereby more labor is employed than was used to carry messages on foot.

93 Q. You mean that the gain from machinery in saving time is secured by keeping all labor continuously at work? The same labor all the time, but with an increasing output in progressively less time?

A. Yes; nature seems to look upon human labor as a fixed force, but to look upon time as capable of unlimited divisions. A single unit of fixed labor may multiply itself by one thousand when producing the same result in one thousandth part of the former time.

94 Q. This fact is clear, but what has this division of time to do with the quantity of money?

A. It has this to do—a dollar of money, according to the price of a commodity, is based upon a fixed unit of time combined with a fixed unit of labor. Now if the introduction of machinery enables the same labor to increase the output tenfold, what then should happen?

95 Q. Why that is easy; the increase in the supply would result in a corresponding fall in the price.

A. But the facts fail to support this ancient doctrine; the theory that an increase in supply will lower the price is based upon stationary demand, but if the demand keeps pace with the supply, the price remains unchanged.

96 Q. This is true, but what does it lead to?

A. It means that unless the gain from machinery is saved by higher money wages the demand can not keep pace with the supply, and

the price may fall so low as to actually prevent the new machinery from being used.

97 Q. Can you illustrate this point?

A. Take, for example, a box of matches, hand-made, which cost in labor three cents, and suppose machinery increases the output from one box to one hundred with no increase in labor cost.

98 Q. The old answer is that prices of matches would fall in proportion to the increase in the supply?

A. But the old answer considers the labor element in money only, and neglects the more important time element.

99 Q. Do you mean that the old price of three cents should continue and allow ninety-nine boxes profit? Where does the consumer come in?

A. The solution lies between the extremes of producing one box costing three cents with hard labor, or with machinery at higher wages producing a hundred boxes; there is a wide enough margin in a gain of ninety-nine boxes to pay labor higher wages, to give consumers cheaper matches, and to pay capital greater profits.

100 Q. Yes, the margin is there, and so also is the mystery of the disappearance of this mar-

gin. Past gains from invention seem to be lost, like the ruins of a city in a desert. Labor now works harder than ever before, and lives but little better than in savage times, while wealth has multiplied, and each laborer does twenty times as much work as before.

A. The answer is well put; the saving in time may become a mere gain in time alone, or it may become a gain in wealth, and if the gain in time fails to increase the circulation of money, it will be lost.

101 Q. Return to the match problem. There is a gain of ninety-nine boxes, and if the price remains the same, then one hundred times as much money must circulate to distribute the matches. The question seems to be, where is the money to come from? Should it grow automatically from the dollars planted in the match market as seeds?

A. Yes; the problem is to increase the volume of money corresponding with the free increase of matches, so that each laborer will share in the gain, and in order to distribute a gift of matches, a corresponding gift of money must likewise arise and be likewise distributed.

102 Q. If matches cost three cents a box and sell for five cents, and if machinery increases the output from one to one hundred, where is

the increase in money to come from so as to buy the increase in matches?

A. It may seem unjust to give such enormous profits to labor and capital in matches, yet it would be equally unjust to get a hundredfold increase from match labor without such labor getting a gain in something else.

103 Q. The answer must be found between the extremes; but in order to pay labor higher wages and supply capital with profits, the public must be able to spend more actual money for matches, however cheap?

A. Matches will sell naturally at lower prices, so as to attract demand, but in order to do so the matches which represent a gain without labor must be accompanied by an equal gain in money, and the public must get the new matches and the new money on equal terms; that is to say, for nothing—without actual cost in labor.

104 Q. To be able to get matches for nothing on account of machinery and to get money for nothing with which to buy them, is very interesting, if true?

A. Machinery may become as automatic as the machinery of nature in producing a field of wheat, and not requiring the cultivation of the

soil. A man may start such machines to work turning out endless quantities of goods, but some way must be devised to distribute goods that are free, because the wind and air only will distribute itself. In such case a supply of money must flow into the hands of each person, so he may secure his share in the free distribution of goods.

105 Q. But a man should not get money unless he works for it, although goods flow freely from automatic machines?

A. But if work became the blessing it seems designed by nature to become, and if work is found to be the true source of happiness and contentment, then to require men to work would add another benefit from nature instead of subtracting anything.

106 Q. How is this increase in money without labor to come into existence along with the increase in free matches?

A. The increase in matches from machinery means a certain number of boxes without cost. Such increase will then depend upon the market.

107 Q. Yes, the market was taking a fixed quantity of matches at the old price, and the problem is how many more boxes may be sold

without lowering the price, or how many more may be sold at a lower price so as to draw more money into the business and pay higher wages and higher profits?

A. The question is correctly stated, and no more money may be drawn into this match business unless the new business creates the new money. At the old market price demand and supply had been equalized by the circulation of a definite volume of money; the increase in supply of matches comes into market to disturb this balance. The unit of price was fixed by a given unit of labor multiplied by a given unit of time for a given sum of money.

108 Q. You mean that the old price at five cents had become adjusted to a standard of wages for labor and a standard of value for money, which the new supply will be required to change?

A. Yes; the new supply represents matches gained without labor, and when the matches are sold they equally represent money gained without labor to the manufacturer.

109 Q. Is this the place where the time saved becomes important? If one dollar represents twenty units of labor combined with twenty units of time, and equals twenty boxes of

matches at five cents each, then when the number of boxes increases with the same labor to one hundred only, we could have a hundred boxes selling for Five Dollars by dividing a day's labor into one hundred units of time and one hundred units of labor measured in matches, and instead of twenty boxes at one dollar we would increase the volume of money to five dollars by equalizing smaller labor units with the smaller units of time, thereby increasing the volume of money in the match business?

A. Credit comes into existence as a result of this increase in matches without an increase in labor. Credit extends the old price over the new supply in advance of any increase in the quantity of money. When smaller units of labor may unite with smaller time units for each dollar, then the credit may become an increase in volume of actual money. Unless this gain in time saved becomes an increase in wages, it is lost to labor, and it permits men to gain wealth without labor by creating debts to offset this extension of credit.

110 Q. Suppose the manufacturer is able to sell the surplus matches at the old price, getting the gain as a profit, which so far has no element of labor in it, at what place or in what

manner will this credit be joined with labor and circulate as more real money?

A. Credit becomes real money when it is redeemed in labor on demand by buying any labor product in the market, and when the profit from the surplus matches is spent to employ labor, then labor unites with time credit and increases the volume of money.

111 Q. You mean to say that all nature asks from the factory owner is to have him employ labor for any purpose with the profit he received?

A. Yes; but you must not jump to conclusions; the market will not absorb the extra matches unless this credit is somehow put into circulation and is kept in circulation by the production and consumption of matches.

112 Q. But there is nothing else the manufacturer may buy?

A. Yes; he may buy land or invest in a debt against future labor.

113 Q. The factory owner must, therefore, sell the surplus matches on credit and wait for the credit to establish its own circulation by paying labor in bank checks and buying material in the same way; putting out matches on

credit is merely waiting to exchange surplus matches for some other surplus coming to market, and to do so by a new circulation of bank-check money?

A. Yes; the problem is as simple as paying labor with scrip and redeeming the scrip with matches; then, as the quantity of matches increase, they are followed by a similar increase of scrip in the hands of labor.

CHAPTER VI.

INFLATION OF THE CURRENCY.

114 Q. You appear to simplify the money question by the introduction of scrip; why not advocate a free issue of money on a scrip basis, wherein each employer of labor creates his own money to be redeemed in goods after the manner of coal and other companies employing labor?

A. The illustration may be instructive in showing the limits between two kinds of money, cash and credit; between money fertilized with labor and money waiting to be so fertilized.

115 Q. May not money in the form of scrip be used as an illustration and thereby explain the principles of circulation and of the increase in volume?

A. The illustration may be made to a limited extent; the scrip issued by coal and other companies is for one dollar, two dollars or five dollars, with cents on the margin of the scrip to be punched out as the scrip is redeemed in the company's store.

116 Q. Is such scrip real money as far as it may be used?

A. Yes; it is the most simple and perfect form of money in existence, exactly filling the particular demands for its use.

117 Q. Assuming that time-labor, as you say, is the basis of each dollar of money, and allowing the prevailing measure of dollars and decimal fractions thereof to remain, suppose each employer of labor was permitted to freely issue scrip, provided he gives ample security to redeem his scrip with goods sold, how far would the system work?

A. If the system of scrip currency was extended from the employer to the general market, the buyer of goods would also pay in scrip, but he would not be allowed to issue more scrip than he employed labor at the ruling rate.

118 Q. How would the buyer of goods secure scrip?

A. To guard against counterfeiting a system of scrip clearing houses would be necessary, and they must become as plentiful as banks are at the present time, and in such clearing houses the surplus scrip of all kinds would accumulate before it was redeemed, and buyers of goods would secure scrip from clearing houses, as they now secure money from banks.

119 Q. But the proposition is to have the scrip directly redeemed in goods?

A. To redeem directly is impossible, for in its most simple form there is always a certain quantity of scrip outstanding.

120 Q. Then as the right to issue scrip was extended, the quantity outstanding would necessarily accumulate?

A. Yes; the quantity outstanding would depend upon the same forces now at work and would be fixed by the time taken by labor to spend its earnings, and by the time required for wealth to be distributed.

121 Q. If scrip was issued to labor every day for work, there would necessarily be an accumulation which would increase until the sum cancelled each day just equalled the sum issued?

A. Yes; if there was not a continual inflation of such currency.

122 Q. While the volume of scrip is accumulating, there is also accumulating a store of goods, and the manufacturer who may issue free scrip is being furnished with capital without cost?

A. Yes; but all capital is thus freely fur-

nished; the difficulty is to discover the process of its growth and distribution.

123 Q. A free issue of scrip would then practically supply the same volume of money we have now, but where would the general government come in on this scrip issue?

A. The general government would also be limited to the labor it employed and would be compelled to redeem its own scrip in taxes.

124 Q. Suppose, for example, such a general scrip issue was made legal in the United States, the general government printing a uniform scrip, but which is issued only for labor employed and is redeemed in the retail market, and suppose, also, the government provided safeguards and clearing houses. What is there in the natural laws of circulation to interfere with the free issue of such a form of currency?

A. The first difficulty would arise in the waste of time in punching out fractional parts of a dollar, and the government would be asked to issue its scrip in such fractional metal coins as would remain in circulation, and which would increase in quantity until the demand for change was satiated.

125 Q. That is apparent, because the fractions of a dollar being in metal coin, redeem-

able in taxes, would at once do away with the difficulty of punching scrip and with fraud it would invite. What next?

A. The scrip issued by the general government, redeemable in taxes, would have many advantages over the local scrip of the ordinary employer of labor, and would pass current without the necessity of a frequent return to clearing houses, and such scrip would gradually increase and displace the free money.

126 Q. In fact, then the general result, under the most favorable auspices, would force us to return to the money which we now have and which has been slowly developed in the history of society?

A. Yes; the money we now have is suited to its purpose; the trouble with our finances is outside of the kind of money we have.

127 Q. But a free coinage of scrip in competition with the money issued by the government might provide a very valuable safety valve. Would it not have a tendency to make all local money equal to or superior to government money? Would it not stimulate the general government to improve its own finances and prevent a monopoly in banking? What objection is there to competition in coinage, if a safe money was guaranteed the people?

A. The great objection would be found in not knowing where to stop the continual inflation of scrip, which would substitute an artificial system for a natural one.

128 Q. But the necessity of constantly redeeming the scrip with goods and sending scrip to clearing houses seems to provide a balance wheel for the system?

A. The system seems complete, because all theories and estimates must have a stable foundation of prices upon which to build; hence the calculation of safety is based upon a foundation which experience demonstrates has no existence. The attempt to build a firm financial structure upon the shifting sands of changing prices has caused the failure of each inflation of money in the history of the world.

129 Q. But scrip going out from each employer and being redeemed by the same employer, would certainly hold prices in check by the same law of redeeming money which is now in operation?

A. When the scrip circulates in the market, there must remain out a definite volume which is never redeemed, and it is the inflation of this surplus which causes trouble.

130 Q. Why would this volume of permanent money be inflated out of its true proportion?

A. Every circulation is based upon stable prices, and the moment free coinage is permitted the general issue of scrip would call out an inflation which would advance prices, and this advance in prices would hold out a corresponding increase in the body of money, and this increase would then permit another inflation, again advancing prices, and thus again making room for a greater volume of never to be redeemed money, and this process would continue until such money falls and pulls the business structure down with it.

131 Q. You are now illustrating the necessity of a gold standard which will prevent such a series of inflations?

A. Not a gold standard.

132 Q. But you demonstrate that the currency system must have a standard of value?

A. Yes; but we have a standard of value all the time, a natural standard, not an artificial and shifting one.

133 Q. Must not the human law provide the standard of value in the currency?

A. No; the human law must adopt a system of measures, as it adopts a uniform system of

weights, but the human law can not fix any standard of value.

134 Q. All the statute may do is to say the currency shall consist of dollars, dimes and cents, and depend upon the laws of trade to regulate values and standards?

A. Yes; the volume of money going into circulation must meet some natural resistance by which the same volume returns to its starting point and describes a circle which determines its quantity.

135 Q. Volume and weight in physics seem to depend upon laws of action and reaction. Does the same law fix the quantity of money?

A. Yes; the standard of value is determined by the law of action and reaction in money, the same as action and reaction with any physical force. The entire volume of money must circulate and turn over within the time fixed by natural law. The volume of money must be paid out, creating a supply of purchase power, and must be spent creating demand.

136 Q. Need the time on one side exactly balance the time on the other side, so that the sums paid for goods and the sums paid for wages are each paid in equal times?

A. Yes; and here is where the credit and secondary money comes in and provides an elastic medium for shifting prices, and for changes in time.

137 Q. Granting the necessity for a natural standard of value, suppose you demonstrate just where scrip would fail to make a closed circle and leave a continual surplus outside, requiring a constant shift in the measure of value?

A. While free money is being issued to pay labor, there are two distinct classes of laborers employed who create two distinct classes of wealth, and only one class of this wealth may be used to redeem scrip, and to pay secondary labor with scrip would cause a continual accumulation of such scrip.

138 Q. You mean by this that scrip would be paid, for example, for building a railroad and would be redeemed in commodities, leaving the railroad itself outside the circle of exchange?

A. Yes; and let me ask how the railroad builder would be able to redeem his scrip?

139 Q. Why he would sell the capital stock of the railway for scrip and cancel the scrip?

A. But here you neglect the standard of value, for there would be no buyers for his rail-

way stock; there are only buyers for commodities.

140 Q. Why so; in building a railway the money was increased equal to the cost of the railway, and this money should be available to buy it back?

A. It is true the volume of scrip is increased to cover the cost of the railway, but such money increases prices in the commodity market and refuses to supply a single dollar outside of the commodity market with which to buy the railway securities, except it does so by creating a debt.

141 Q. Please explain where this mystery in redeeming money by labor comes in?

A. It is a question of time units failing to unite with the proper labor units in creating the required volume of railway money.

142 Q. Do you mean the railway is produced without cost, and in order to have a price and find buyers it must bring into the market a gain in money like surplus matches?

A. Yes; the scrip issued to pay for labor and material in building a railway becomes money because it buys commodities and closes the labor account in the commodity market,

leaving the railway outside as a gain, the same as if it came from machinery without labor.

143 Q. Then the railway represents a new accumulation of commodities in a new form, which may or may not save time, depending upon its successful operation in the future; the cost of the railway in labor and material must become the basis of new credit, and the railway must unite its own saving in time with new labor in its own operating department, and the labor employed by the railway must become the basis of money to buy the railway, instead of such money arising from the labor producing the railway. Is this the situation?

A. Yes; prices for railway property must come from the exchange of railway labor with other labor by the production and sale of transportation. Selling transportation at a higher price than is paid to produce it will create a considerable margin of profit, and this profit becomes new bank deposits independent from other profits, and will accumulate a volume of bank money equal to the needs of the railway business.

144 Q. You mean that a secondary profit arises which can not return directly to its starting point as cash constantly returns in wages, but must pass through a bank and create a cir-

ulation of checks redeemable in money on demand?

A. Yes; the increase of prices in the primary market can only hold up when the profit from goods is spent to employ labor for secondary work. The secondary product is outside this circle and sells for an equal price, but the profit from this secondary price can not go upward to a third tier of laborers, as profits from goods go to other laborers, but must return to the beginning and increase the entire wage fund.

145 Q. Then each price in the market depends upon a definite volume of money which circulates in a definite period of time, creating standards of value, as follows: In the commodity market the short periods of time can all be included within a closed circulation of a limited volume of money, but the longer time and the many changes of capital require the independent circulation of credit?

A. Yes; one day's supply of cash is extended for as many days as may be required to meet the demand and until as much cash is released by consumption as is required for daily production; but in the capital market the situation changes; not only must the co-operation of labor be taken into account and joint wealth be distributed to contributing laborers, but

some operations of capital are successful, while others fail, and changes occur which are independent of commodities, and which must be equalized by corresponding changes in volume of money.

CHAPTER VII.

SECONDARY MONEY.

146 Q. Railway and other utilities are consumed in practically the same time as commodities. May not cash circulate to pay wages to labor creating such utilities and the cash money be redeemed by transportation and like services?

A. The answer is both yes and no. Checks have two functions, while cash has but one, and checks act as cash when the price of utilities is included within the commodity price, but the increase in the commodity price which carries the price of transportation is based upon bank checks and is independent from the cash in circulation.

147 Q. Since the railway business must be supplied with bank checks, and as such money can not come into existence from an inflation of cash, and since you deny that capital need be saved, where does capital originate? How does it get a beginning and then increase?

A. The answer is that capital originates from primary profits which are paid by the consumer of goods.

148 Q. Primary money is not then capital?

A. No primary money is cash, while capital is credit payable in cash on demand.

149 Q. But the volume of primary money must also increase with the increase in wealth, and retail profits must first supply this gain?

A. The increase in prices of goods operating against a closed circulation of money, is like the increased growth of an organism around a nucleus, which growth soon balances the attraction and causes a separation into two equal parts. So with commodities, the dollar employed in production soon results in more goods than one dollar will market, and the surplus goods split off, seeking new buyers with new money.

150 Q. The old volume of money in circulation fixes the amount of attraction one dollar did possess for one dollar's worth of a particular commodity?

A. Yes; and when a surplus appears it is split off, because the amount of goods to be attracted by one dollar has increased so as to require more dollars to take up new goods. The new goods, when they split off, have only an imperfect dollar contained within them, which is a credit dollar, and which must be fertilized

by uniting with labor before a true and new dollar comes into existence.

151 Q. The increase in primary money is a first charge upon the quantity of money; is it not?

A. Yes; the profits in the primary market pass through a bank, where one dollar in cash creates two or more dollars of credit. A part of this check circulation supplies the increase in cash until the actual cash circulation expands from the introduction of new money.

152 Q. This primary credit seems to be ahead of capital in some way, because if crops fail there seems to be a general decline of capital all over the market?

A. Yes; the first demand upon the circulation of money is made by commodities, and this demand supersedes capital, because commodities consume the cash in circulation, leaving capital depending upon credit payable in cash.

153 Q. An increase in quantity of money is based upon finding gainful occupations for the labor not required for commodities?

A. Yes; when half the total labor produces the primary supply, the laborers thus relieved are expected to create an equal wealth to exchange for commodities, so that one unit of

primary labor will exchange on equal terms with a unit of secondary labor.

154 Q. With secondary labor fully employed, will the commodity market furnish a continuous profit equal to the wages of secondary labor, because goods sell at twice the primary cost?

A. Yes.

155 Q. Suppose a merchant who is accumulating a profit every year becomes a money lender, instead of buying more goods and extending his trade. How does money lending affect the currency?

A. Interest is the attraction which keeps money in circulation, and at the same time leaves a gain with the merchant which becomes the basis of more credit. The borrower goes into business with money borrowed from the merchant, and pays him not only the interest but the principal from the profits of the business. When the loan has been paid the credit is set free to help another to start into business, and in this manner cash continues in its own channels, while bills of exchange accumulate in every direction.

156 Q. Loaning or investing retail profits, then, furnishes the capital for building?

A. Yes; capital goes into building as though the building was a pile of newly-created goods, which, however, can not compete with commodities, because differences in the time of circulation creates two independent standards of value, one for goods and the other for capital.

157 Q. If the primary profit was used to erect buildings that burned down as soon as completed, would there be a continuous market for commodities, a continuous employment for labor, but no capital and no volume of money by which capital could be maintained?

A. Yes; and the converse of your proposition is also true; if gainful buildings are created during periods of prosperity, and fill the world with riches, and if credit is then contracted, the wealth of buildings and improvements would be practically destroyed, would be deserted and fall in ruins, as from a fire. A failure in the circulation of money after wealth has been created has the same effect as a failure of money to arise in order to create the wealth.

158 Q. The point I would draw out, however, is that nature will not long permit buildings to be erected only to be destroyed, although a temporary loss of this kind may be permitted to teach mankind how to build profitably. What is the plan by which we keep on building

better than before, supplanting old buildings with new and better ones?

A. The plan is to offer a bonus to the builder, consisting of the entire selling price of a profitable improvement.

159 Q. How the entire selling price instead of the price above cost?

A. By borrowing the cost price and by selling at a profit and repeating, or by borrowing the cost price and by waiting until profits repay the loan.

160 Q. Must capital sell for twice its cost, like goods, in order to sell continuously to labor, and in order to sell as much as may be produced?

A. Yes; a building or other improvement is a pile of commodities extended as a credit over a longer period of time.

161 Q. Will the double price of buildings depend upon a quantity of bank-check currency?

A. Yes, because there is no third level of employment where the profits from capital must be used as wages; hence they first supply a currency with which to buy capital at twice its cost price before wages are permitted to advance.

162 Q. The workers in primary markets get wages in cash which will buy half the primary product at twice its cost; that is to say, they get wages equal to the whole product at cost. The remainder of the primary product goes to secondary workers who also get equal wages in cash, thus creating a cash market for commodities, but only accounting for the product of half the workers?

A. Correct.

163 Q. Capital arises from primary profit being used to employ secondary labor, and this secondary labor in part is engaged in creating more capital, part is maintaining existing capital, while another part is operating capital in factories, in railways, in schools, and thus supplies the country with secondary service, like transportation, heat, light, teachers, lawyers, government and the like?

A. Yes.

164 Q. This leaves out of calculation any exchange of services between the primary and the secondary laborers. Am I right so far?

A. You are.

165 Q. Since equal units of labor in equal times should give rise to equal volumes of money, the laborers employed by capital should

originate a wage circulation of bank checks equal to the circulation of cash. Is this correct?

A. It is.

166 Q. This quantity of wage checks, however, does not buy capital, but buys the services of secondary labor in the form of transportation, water, heat, light, taxes, amusements, luxuries, travel and other secondary services?

A. You are right.

167 Q. This secondary check circulation is redeemable in cash on demand for the same reason that a gold standard is required to prevent an inflation of currency, to hold down the quantity of checks to the standard of value in the commodity market?

A. Yes; the almost unlimited freedom with which nature permits credit to be borrowed requires a strict regulation of the volume of bank checks, and requires a standard of value for them, the same as for cash.

168 Q. The bank checks in the secondary wage fund should at least equal the volume of cash paid as primary wages, so that the secondary workers may supply the primary workers with bank checks in exchange for the cash they get from them, and by this exchange the primary workers may buy with bank checks as

much secondary service as they sell primary service?

A. You state correctly the manner in which the wage fund should round itself out.

169 Q. Now aside from capital, which you say is a borrowed fund and must always remain a credit, what becomes of the bank profit from this secondary half of wages, when transportation and like utilities sell at twice the cost?

A. This secondary bank profit gives rise to a new volume of circulating capital, by which wealth is distributed to individuals—I mean fixed wealth, which pays an income.

170 Q. Does capital get its price from the circulation of certain secondary bills of exchange we call capital stock, which circulates independent of the money in the wage fund, but is connected with it by exchanging such securities for money?

A. Yes; there can be no increase in wages from an increase in capital itself; they are absolutely limited by the product of labor selling to laborers, and wages are consumed as fast as they are produced.

171 Q. Wealth seems to grow in pyramid form, or to grow like a tree; the central growth proceeds from dollars of cash paid out as the

cost price of commodities, and the first ring of growth outside of this central core is made up of another layer depending upon a surplus coming from the central growth; from this trunk numerous branches are thrown off, supported from the tree, but the entire growth must be maintained by sending out working roots in the soil, which balance the credit branches spreading in the air?

A. The illustration is correct; wealth depends as much upon the vital circulation of money as the growth of a tree depends upon its sap.

172 Q. Commencing at the foundation, explain the growth in quantity of money, and the growth of one or more credit dollars attached to each primary dollar?

A. At the foundation is the labor cost of the food supply, which constitutes the central core of the cash transaction. When money is paid to labor to produce food, the profusion of nature gives a surplus, which becomes the basis for an increase in money equal to the gain in food. This surplus in food enables the laborers not required to produce food to be paid for other work, so as to buy food while they are creating new wealth.

173 Q. This description so far takes into account only the cash, which will always circulate, in good times or bad times?

A. Yes; there is a central vitality which must be protected by nature at all hazard, and it is this central source of vitality we are seeking to set apart from any gain.

174 Q. The moment a gain above subsistence arises, the fecundity of money makes its growth felt. Is this power the same whether the money grows from an increasing supply of food or from new capital?

A. In whatever direction cash circulates, whether in the field or in the shop or in the bank, the central heart pulsates with cash based upon labor cost, and flowing out from the heart through its channels, new supplies of cash start new supplies of credit into living activity.

175 Q. I am beginning to understand this growth of money. The necessary dollar which pays for subsistence gives rise to an offspring dollar from an increase in subsistence, which dollar may or may not have the reproductive power?

A. The primary circulation is doubled when each one dollar has a primary credit dollar attached to it, and thus union permits each of the two to create a second pair of credit dol-

lars, which gives rise to a secondary circulation equal to the combined primary circulation.

176 Q. Advancing from the primary growth of money to the crop of secondary dollars, tell me how this second crop originates?

A. It originates largely or almost wholly from trade, whereby a surplus of goods at one point is traded for a surplus from another point; trade permits wealth to grow, instead of allowing it to waste.

177 Q. But you say capital is required to bring this second series of dollars into existence?

A. Yes; when once the line of growth is established by trade, and the common surplus from the soil at one place is traded for a different surplus from another place, it opens up new and unlimited possibilities in creating wealth.

178 Q. How opens up new possibilities?

CHAPTER VIII.

CAPITAL.

A. When a new surplus of one kind may be traded for a surplus of another kind, then capital may invent new supplies and may create its own money. For this reason anything may be produced which any individual may fancy.

179 Q. What I want particularly explained is capital itself, as distinct from labor. You say, for example, that primary circulation is always a closed circle, which, however, enlarges by taking into it more primary money, but the expansion of money grows in the secondary field and thereby makes capital necessary for a large part of wages. I want this distinction between capital and labor made clear?

A. How made clear?

180 Q. Is there a similar closed circle in the credit part of the wage fund, so that this expanding money is also limited in volume?

A. Yes; but the credit in the wage fund is a part of another larger circle in the capital fund, which is based upon profits instead of wages. Capital money is very elastic, and its volume is regulated by the rate of profit.

181 Q. How does the rate of profit provide elasticity in the volume of credit money?

A. As the rate goes up the price of capital diminishes and limits the field of circulation, and as the rate goes down the price rises and makes room for a greater volume of money.

182 Q. You mean that different kinds of capital pay different rates of profit, and the change in the rate regulates the volume of money by differences in speed of circulation?

A. Yes; a ten per cent. rate for one hundred dollars has a ten-year speed, while a five per cent. rate has a twenty-year speed of circulation, and there is a wide average rate which is very sensitive, because a change from six per cent. to four per cent. in the general rate makes room for one-third more money by an advance in prices without an increase in wealth.

183 Q. Going back to the point where an increase in the wage fund begins, and admitting the increase in money must come from an expansion of credit currency, it is easy to see that bank checks when used as wages would circulate in less than a year, and in this way would be much superior to longer credit. The slower circulating capital could offer no obstacle to being continually absorbed by the quicker credit in the wage fund. The increase in wages,

therefore, may always find ready money by drawing upon the volume of bank checks in circulation unless something outside may interfere. Am I correct in this?

A. You are correct.

184 Q. Nature will not allow a circulation of money for capital, unless such capital saves time in production and trade, whereby the units of time saved may unite with smaller units of labor and create the money; in other words, capital will not be permitted to draw its supply from the wage fund, while wages may increase from the profits of capital?

A. Yes; but wages can not draw upon the body of capital, and the old theory that wages come from capital is false, but the profits from capital must go into the wage fund. Capital must originate from some gain in trade independent from the gains made by labor in production, yet capital must be inseparably connected with production, and it is *trade* which supplies this connection between labor and capital.

185 Q. How does capital save time independent from labor?

A. The difference between labor and capital is made by the time saved in production compared with the time saved in trade.

186 Q. This again seems to be injecting something new and to wander away from the money question?

A. Not at all. Money supplants barter as soon as trade becomes of enough importance to require the aid of capital.

187 Q. You say the difference between labor and capital is a difference in time gained by labor in production or time gained by capital in trade. Please explain just what you mean?

A. Gains in production arise from improvements which increase the output, while gains in trade arise in marketing the output; in making a surplus at one place equalize in value with a surplus at a different place.

188 Q. Illustrate this idea of capital?

A. Capital arises with the first pedlar who takes up a pack of almost worthless goods from an unsalable surplus and trades them where they are scarce for an equally unsalable surplus at that point.

189 Q. In this form the pedlar-capitalist is of considerable benefit at each end, is he not?

A. In this form he is a benefit only to himself; for, like the trader getting valuable ivory and furs from savages or selling Old Masters

to multi-millionaires, the reduction in surplus at either end is of no particular value.

190 Q. But would not such gains so increase the number of pedlars as to take up the entire surplus?

A. No; the introduction of money and of fixed capital changes what otherwise would become a mere increase of pedlars into an increase of new laborers.

191 Q. Is labor at the mercy of capital when trading with the individual pedlar?

A. Yes; for however free the laborer may be in his small circle, and however free his access to land, his only hope for gain lies in his being able to sell his entire surplus at the cost in labor to him of the part he must consume.

192 Q. This is to say, there is no such diminishing margin of usefulness in the surplus product as is being claimed by the Austrian School of Economists, but a decline in the price of the surplus arises from not selling to its best advantage, and the diminishing scale of prices results from some interference with capital?

A. Yes; a railway system, for example, changes peddling into new forms of labor, whereby all manner of surplus crops are traded

among a constantly changing and diversifying people; the pedlar works as a railway employee on account of the growth of capital.

193 Q. Instead of allowing an army of pedlars, each having a pack on his back, and another greater army with trains of horses and wagons, capital in some way changes the conditions; each surplus exchanges with another, and creates the value of a railroad independent from the value of the commodities?

A. Yes; the individual pedlar barter goods for goods and fixes the value by the load he is able to carry away, getting as much and giving as little as possible, while capital creates many new varieties of goods and permits each unit in a surplus of one kind to be valued equally with each unit in a surplus of another kind.

194 Q. This seems clearly demonstrated by the fact that civilization was first developed along water courses, where this diverse exchange could develop from shipping?

CHAPTER IX.

TRADE.

A. Capital did originate from shipping, the ship taking its load of surplus goods from the home market to a foreign port and returning with a surplus taken from abroad. In loading at home the ship owner buys cheaply and makes work for labor in producing his trading stock, which he sells at a profit in a foreign port, and when he returns he sells at a scarcity price, getting a profit at each end of the voyage.

195 Q. How does money originate, for the ship itself and for the markets at each end, where no markets existed before?

A. Whatever cargo the ship may take at either end would not otherwise have been produced, and the labor would have wasted. The return cargo is also a gain; hence the gain from this trade will always equal one cargo one way, if both cargoes divide equally between capital and labor.

196 Q. This seems clear, but new money must arise to support this labor and trade?

A. Yes; the ship owner buys the home surplus with bills of exchange on the foreign port,

agreeing to pay with the proceeds of the returning cargo, and he does the same at the foreign ports, and in this way he creates the money at each place to market each cargo.

197 Q. To get this point clearly in mind, the ship owner buys his outgoing cargo with bills of exchange upon the foreign cargo, to be taken up when the foreign cargo gets to port, and when he gets to the foreign port he buys his cargo there with bills of exchange on the home port. Why all this round-about method?

A. This proceeding is necessary in order to complete the entire circle of credit circulation, which is to produce a market at each end.

198 Q. Suppose he buys the return cargo with the cargo he takes with him by selling it in the foreign port?

A. It would be impossible unless he sold for gold, which would then become an international money, and the trade would only last as long as the foreign supply of gold held out.

199 Q. I don't get the idea; the shipper delivers his home cargo to a foreign port and sells it and buys his new cargo for the return voyage. What is the matter with this statement of the case?

A. If he sells one cargo and buys another he must have a market in which to sell before he buys, while he has no such market until after the foreigner has sold his goods in the home market; hence, in buying the home-going cargo, he must buy with bills of exchange, payable when he sells the cargo he will bring back, and the same condition is found in buying the foreign cargo.

200 Q. You mean that the trader must have this lag in time to originate the circulation of money to pay for the cargo the same as with the lag in wages?

A. Yes: and this time required in commerce is the limit in the total time required for the circulation of money, making all other debts not only unnecessary, but making them interfere with the circulation of money.

201 Q. This brings up another new problem among many. You have bills of exchange in each port taking care of the selling price of the imported cargo; hence you are doing away with the balance of trade theory, whereby each nation is striving to secure something for nothing from every other nation. What about the balance of trade theory?

A. It is a pure humbug, and has no exist-

ence outside of the imagination which gives it room to live.

202 Q. But money flows from one nation to another, and one nation gets rich at the expense of others, or from trade with other nations?

A. Money flows from one place to another because of the world-wide unequal distribution of wealth. It is not on account of trade that individuals borrow capital, but to allow men in each nation to get rich from an increase of indebtedness. Money flows from place to place so as to plunge labor everywhere into hopeless poverty, to burden them with the weight of irredeemable debts.

203 Q. Each surplus separated from another, you say, is joined together by trade, and this exchange brings about the growth of capital; and is this true of trade everywhere, domestic as well as foreign?

A. Yes; and similar bills of exchange are everywhere required to market the goods. If trade is within a city or between one country and another, the same principle holds good; one surplus is balanced by the equal value of another, neither of which could come into existence without this exchange.

204 Q. The aid which capital gives to production arises from some kind of a new supply being exchanged for some kind of a surplus in the old supply, which gives new value to each and creates a new volume of money, with which labor is able to buy both, where otherwise neither would have had a market. Is this the correct view of labor and capital?

A. It is; and the whole system depends upon what may be properly called primary bills of exchange, whereby each product is valued at its selling price in its own market by a system of bank checks redeemed with cash when they fail to redeem each other with labor.

205 Q. How does capital itself circulate independent from this marketing of commodities? Where does capital find a market?

A. Starting the growth of capital upon a foundation of labor cost, we are required to treat the beginning of capital as a pile of surplus commodities, but capital has a continuous life and has a purpose distinct from commodities.

206 Q. If the owner of a building is to get a return of the money it cost him, with a profit, must not new money come into existence and circulate outside the wage fund, with which to

buy capital, as distinct from buying commodities?

A. Yes; the building, however, may become a total loss on account of bad location or bad construction, or it may become a gain, and this difference of its becoming a loss or a gain fixes its place in the circulation of money, by requiring the building to create its own money from its own gains.

207 Q. Having the cost price of a building as a basis, and the owner being required to wait until the building is successful and until it originates its own money, then if such building sells in advance of this period of waiting, the price paid becomes a debt, does it not?

A. Yes, because labor is not required to wait during the time a building demonstrates its fitness to survive.

208 Q. Of what does the waiting of capital consist?

A. Capital, when engaged in supplying a new product like transportation, must wait only until a supply of money may get into circulation ahead of the wages it pays to labor, and if capital may then sell its product for a profit, this profit at a certain rate will originate what may be called secondary bills of exchange.

209 Q. But capital itself is waiting to find its own market?

A. Yes; capital finds its market from a secondary accumulation of deposits in banks when its own product sells for twice its cost, and this capital profit must accumulate because there is no third tier of laborers to be employed with it.

210 Q. I am now clear as to this second layer of new dollars which limits wages, but the money with which capital itself exchanges among owners remains to be explained?

A. The moment capital develops we cut loose in a measure from the primary circulation, and develop a circulation of capital stock, which should sell for cash on demand, and in so selling should represent a certain portion of the surplus commodities which have become fixed and built into the forms we call capital.

211 Q. This capital money, with which to buy shares of capital stock, consists of bank checks. What limits the volume of money with which capital is bought and sold?

A. The limit is found in the profits, which can not go upward to a third development, but must accumulate to buy capital.

212 Q. We are going too fast; the point wait-

ing for light is this: When does a man get his money back which is profitably invested as capital, admitting he must wait? How does this waiting account for the return of his investment when his original money has passed beyond his control and gets into the wage fund?

A. His money is returned by the rate of profit producing a reserve which will pay cash for capital on demand. The sale of transportation at twice its cost gives rise to a secondary profit which becomes new bank deposits, but which can not be used to employ labor in a third series, as primary profit must be used to employ secondary labor. For this reason this secondary profit will inflate bank-check currency.

213 Q. There must be a great expansion of money when capital may sell a world of new varieties of commodities and services at twice the cost?

A. Yes; but there is also a second standard of value by which an indefinite secondary expansion of bank checks meets its limit. The quantity of profit for a year divides into the quantity of capital and fixes a rate of profit and a standard of value.

214 Q. You have capital selling at twice its cost, the commodities consumed in a building

sold originally at twice their cost and the building may be a failure, but when these same commodities become capital, they again sell at twice the cost?

A. Yes.

215 Q. The capitalist, however, has this advantage, although he must wait for a circulation of money to develop, and must wait on wages to establish such circulation, when capital has been established on a profitable basis the perpetual increase in money is open to him, while labor is cut out by a natural limit to the possible wage fund?

A. Assume for the time you are correct, that the money invested by capital is considered by nature as a venture into new fields, which risk involves losses to individuals and must also be rewarded with exceptional gains.

216 Q. The point now uppermost in my mind is to know how this line originates which divides the money circulating as wages from the money circulating as capital; or, rather, how it happens that the wage fund is limited, while capital can grow to the limit of the earth's capacity?

A. Assume that capital has an unlimited expansion of money at its command, what is the result?

217 Q. The result is a rise in price of all capital in the entire field, while wages remain relatively stationary.

A. And is there no limit to this rise in price?

218 Q. Capital would not sell unless it provided something to be consumed by labor from which a profit arises and which profit is paid by other laborers; hence capital must in some manner be sold to laborers if it sells for cash on demand.

A. Admitting that an inflation of currency is bound to arise and also that this fund grows all the time, what effect will a volume of expanding currency have upon capital?

219 Q. The effect would be a continual increase in its selling price without any increase in cost.

A. The answer is correct to the point when all labor is not fully employed at standard wages.

220 Q. You mean that wages may only advance after capital sells for more than twice its cost?

A. Yes; I desire to explain that the selling price of capital rises from zero, where it represents a mere loss of commodities, to a point

where capital sells for two or more times its cost, and is independent of wages in so doing.

221 Q. The rise in price above cost creates two funds, one fund going to pay labor, the other creating capital. Is this correct?

A. Yes.

222 Q. This double circulation is independent of the success or failure of capital; but if capital results in a new gain to labor, then, in addition to the wage fund, from which this capital grows, there will arise a new circulation by which capital itself will be distributed. Is this correct?

A. Yes.

223 Q. The distribution of wages may be said to end when the money spent as cost of capital is either wasted or creates new fields of employment?

A. Correct.

224 Q. Capital advances wages out of other wages by being able to extend credit, and its own money arises from a surplus above the highest wage rate?

A. You are right; but the higher the wage rate the greater the profit to capital and the

easier wages are to pay and the better market capital acquires.

225 Q. While capital is compelled to wait for its volume for money, labor may buy its own products from the continuous volume in the primary circulation?

A. Yes; but money for capital is as certain to come into existence as is the money for the wage fund.

226 Q. The third circulation of money which buys capital for its owners, seems to depend upon capital becoming private property. Suppose public ownership should take the place of private property, what effect will such public ownership have upon the third circle of circulation?

A. There could be no such public ownership as you have in mind. The general government might own all income property, but it could only do so by selling securities to individuals, and in so doing it must distribute ownership again to private individuals. Capital must absolutely be represented in the volume of money or it will go out of existence; it must sell for cash on demand.

227 Q. This third profit, accumulating all the time to furnish money which represents

capital, seems to offer an opportunity for a new bank in every block in a city?

A. Yes; banking is as important as groceries, and there should be no artificial limits to the increase in their number.

CHAPTER X.

STANDARD OF VALUE FOR CAPITAL.

228 Q. What is the limit to the volume of capital?

A. Anyone may become a capitalist in any field where capital may become profitable, but the increase of capital would speedily be limited by exhausting the labor market and by a rise in wages, which, in such case, would not advance commodity prices, but would increase the cost of capital and lower its dividends, thus setting brakes upon the expansion of capital by an increase in wages.

229 Q. You say that nature allows currency to expand in the following manner: First, in the wage fund, so as to enable buyers to pay twice the cost of every commodity consumed and twice the cost of every service furnished by capital. Secondly, there is another circulation which in turn buys capital at twice its cost, and then all profits return to their source by distributing capital itself to new owners?

A. Yes.

230 Q. I think I now have this quantity of money problem nearly at command. There are

two quantities, one in the wage fund and one in the capital fund. The wage fund is made up, or should be, of about one dollar in cash and three credit dollars circulating as cash, and held to a cash standard by being redeemable in cash on demand. In the capital fund there is a volume of secondary bills of exchange in circulation, now known as stocks and bonds, which represent capital at twice its cost, and the price of secondary bills of exchange is determined by the volume of profits and the rate. The rate of profit is made by dividing the total annual profit into the total selling price of capital, thus creating a circle, which, however, is closed by a rate of profit, but which nevertheless establishes a standard of value by limiting the volume in circulation?

A. Your statement is correct, and capital should be held down to this standard of value by being required to sell for its value in money on demand.

231 Q. So far very good, and we seem now to be ready to revel in wealth; a purse of Fortunatus is not only filled with inexhaustible money, but there is such a purse for every laborer, and I can see money, money everywhere.

A. What you are seeking?

232 Q. Suppose we have accumulated a store of capital such as we now possess, and suppose we have on hand our present store of commodities;

A. Go on.

233 Q. We market about fourteen billion dollars in commodities at retail and have an annual profit of seven billion to pay to secondary labor, but have also as much more as we may desire to waste, provided there is no particular demands upon us to save. Is this a true statement?

A. Yes; money may be spent in almost riotous profusion if it is widely distributed, because labor produces a continuous crop, and because the more we spend in certain directions the more we get back to spend again, until we tire of mere waste and turn to higher things.

234 Q. But I was only considering commodities, from which there is now derived an annual profit of no less than five billion dollars, and there is an equal profit in the secondary products?

A. Yes; when the first profit gets into the wage fund the second one is thereby induced to follow it in.

235 Q. We have then ten billions of profit annually to increase wage and to insure prosperity and employ everyone and allow the utmost luxury which labor may supply, and have a cash market for every form of wealth in existence, at twice its cost, with an inexhaustible demand for more new wealth than we are able to produce?

A. That is correct, but what are you leading up to?

236 Q. I am considering now only the spending money. Besides this, there is the permanent increase in bank deposits which this spending would multiply many fold, and beside all this there is the increase in price of tens of billions of fixed capital?

A. Correct; what then?

237 Q. It is to understand how it has ever become possible to dampen this demand and contract this circulation, how humanity has been so oppressed when everyone, without exception, would be enormously benefited by permitting the natural law to hold full sway. How has it been possible not to have had this gain in every period of history? Why does wealth become so unequal? Why crush itself out of existence? Why fall from its own towering growth? Why has wealth become a blind

Sampson, always pulling at the pillars of the temple to bring down its own destruction in universal ruin?

A. In order to illustrate this difficult problem, I must ask you to consider a change in the law and practice of issuing capital and selling it to the public.

238 Q. What is the change you advocate based upon?

A. It is based upon the necessity of creating a cash market for capital, the same as the market price for commodities. It is necessary to sell capital as readily as wheat or potatoes are sold.

239 Q. You mean that corporations shall be required to provide sinking funds and retire their bonds?

A. No; I mean to have a financial system in harmony with the natural growth in wealth; to have capital represented by money instead of allowing it to be represented by debt.

240 Q. You would abolish debt?

A. There are two kinds of debt, which I call primary and secondary, and which are known in banking circles as commercial paper and collateral security.

241 Q. Then you attack this problem from the top, from banking?

A. Yes; I would, for example, have the law draw a line marking off the two classes of securities, and only allow commercial bank loans to become payable in future time, and limit such time to one year.

242 Q. This would be revolutionary, to cut off all other classes of future payments, real estate mortgages and bonds. You would paralyze business?

A. Let us proceed; the corporation would be permitted to issue two classes of securities only, instead of the present pyramid, consisting of tiers of mortgages upon mortgages, and of other superimposed layers of preferred and common stock, and A, B, C, D collateral trust and other bonds and certificates.

243 Q. You would begin by simplifying corporation finance?

A. Yes; by holding the classification to natural lines of cleavage, and not permit the financial structure to grow in bumps and crooked trunks and other abnormal features, to get around interferences.

244 Q. Then you regard the present complex structure of securities as being necessary in

order to get around some obstruction to natural growth?

A. Yes; but to get to the point: The basis of financiering must be the labor cost of capital.

245 Q. Do you base this cost upon all expenditure until there is a return?

A. Yes; the first layer of securities will equal this labor cost, which we will call preferred stock, bearing a rate of interest equal to the average rate upon money, and before any interest may be paid upon this stock or any other profit paid to owners, a reserve or insurance fund must be provided by which the stock is made payable, principal and interest, on demand, to be again sold, keeping the same volume in circulation. The market price of capital would soon become no less than twice this cost, and a second layer of securities may then be issued, which we may call common stock. This issue may equal or exceed the amount of the preferred, and upon the common stock a rate of profit in excess of the preferred rate may be paid, but its rate should be fixed.

246 Q. You would have the preferred owners benefit first if the property is foreclosed?

A. The point is to prevent the property from being foreclosed and to have the owners bear

its burdens or surrender them to the state, and not be able to shift losses upon innocent purchasers.

247 Q. Is the common stock also to have its value guaranteed and be made redeemable in money on demand?

A. Yes; before dividends on common stock may be paid, a like insurance fund must be provided to redeem the stock at its rate of profit on demand.

248 Q. If any corporation became a very profitable one and earned more than the legal rates, what then?

A. In such case stock dividends would be declared and distributed to preferred and common holders, to take care of the earnings, thus keeping values and rates of profits at a fixed standard.

249 Q. According to the same rule, I suppose the outstanding stock would be taken up and cancelled, if earnings fell below the rate, so as to keep prices in harmony with some standard of value for capital?

A. Yes; and to make the illustration pertinent to the business of the country, I ask you to recall the fact that great bankers in every financial center in the world are required to

provide exchanges where a cash market will be found for the securities in which they are interested and must protect.

250 Q. But the stock and other exchanges have grown naturally from a desire of holders to sell and from the desire of others to buy securities?

A. But that is no reason for the enormous concentration of money all over the world into a few centers, instead of its being distributed.

251 Q. But is it not true that the natural demand for investment has led to the creation of exchanges and to the development of financial centers?

A. The demand for investment gives rise to exchanges where capital is bought and sold, the same as a demand for commodities gives rise to similar market places, but there is no concentration of commodities to a few centers while whole provinces are starving for supplies, as we find in the concentration of all liquid capital to only a few money centers in the whole civilized world.

252 Q. We seem to be getting the discussion out of line; the point to first explain is the necessary connection between a cash market for all kinds of capital and a volume of money

which will permit capital to sell for cash on demand?

A. Unless there is a standard of value in the capital market in harmony with its price and according to a given rate of profit, there can be no real price for capital, and the value of capital must become largely and mainly speculative. Unless fixed and income property may sell on demand for its price in money, it can have no real value.

253 Q. You imply by this that investment banking, as distinct from commercial banking, would fail and would carry capital down with it unless powerful groups of bankers maintained a market for the securities they were compelled to protect, although such market is an artificial one?

A. Yes; and I desire to illustrate a law which governs the circulation of liquid capital, and to demonstrate that nature requires capital to remain liquid by requiring it to sell on demand for its price in money, if it is to have any standard value.

254 Q. The only extent to which this demand of nature is obeyed is in the highly speculative stock and security exchanges in the financial world. If the natural value for capital was allowed to freely circulate the required volume

of money, would every town and city have capital markets of their own and be thereby released from bondage to money lenders in a few financial centers?

A. Yes; cash security markets, as well as cash commodity markets, are an absolute requirement, not only for the development of wealth, but more especially for its equal distribution, and nature has made ample provision for such markets in the wide fields where capital develops. Credit, instead of having real property behind it, has a debt payable in the future, which takes the place of cash payable on demand, and in so doing the credit circulation is contracted and we suffer from a continual stringency of credit among the mass of the people.

255 Q. What is the natural market condition of capital?

A. A loan of cash should be temporary, and should give rise to one tier of credit dollars supporting other tiers of credit dollars employing labor; but when long-time debts appear, the credit dollars are being continually cancelled, and each dollar of cash, which should support five credit dollars in circulation, is loaned five times, and thereby cancels all banking credit by creating bank loans which can not be paid.

256 Q. Stock exchange financiers borrow the volume of money required for a cash market, and thus replace the natural circulation by a forced circulation of borrowed money?

A. Yes; the money which belongs to the general market is attracted from every outside field to central reservoirs, and the supply of capital at all other points is thereby diminished. All demands for credit are thus forced to turn to the central market for supplies. Money can not grow in financial markets, but must grow in the wide and fertile fields where labor may be profitably and diversely employed.

257 Q. How is money and credit drained from other fields of industry to stock and other exchanges?

A. The merchant, the manufacturer and the builder have no markets in which their plants and stocks of goods have a cash surrender value, and, as a consequence, the moment they need credit they are forced to depend upon other sources, and they must pay exorbitant rates or go into bankruptcy when competing with capital which has a cash surrender value.

258 Q. Your first object in reforming corporation finances would be to secure a market for capital equivalent to the primary market,

but do you not forget a vital difference, one you said was fundamental, in a previous answer?

A. What vital difference have you in mind?

259 Q. Money circulates in the commodity market because goods sell for more than they cost, and when you expect corporation securities to sell in competition with them, they must sell on the same basis of profit?

A. I do not neglect this important condition, but, on the contrary, it is the basis of lending money and of paying profit; a note for money must bring in more money than was paid out, because the owner of money will not otherwise part with it, and all increase in payments represented by interest and dividends is a part of the regular increase in price above cost, and for this reason capital must sell principal and accumulated profit on demand at any time for cash.

CHAPTER XI.

PERMANENT DEBTS.

260 Q. There are several very important points in your scheme of financial reform which are very hard to hold together. Admitting that a volume of currency must remain in circulation so that capital may always sell for cash on demand, and also admitting that the general government may be justified in maintaining such a market at all hazard, why do you make such a remarkable difference between commercial paper and other securities? Why is commercial paper alone to be permitted future payments of cash?

A. Commercial paper may carry future payments, while other forms of debt must be prohibited so as to secure a cash market. Commodities are coming newly into existence all the time and the value of money is coming into existence with them. There are, therefore, a number of gaps which separate the prices of commodities being consumed from the main stock of commodities, and some form of credit must bridge this gap between the present and future. Commercial credit connects the present with the future, and upon it the whole superstructure of other credit rests.

261 Q. No one will deny the necessity for a tremendous volume of commercial credit which forms the bridge to carry wages from the cost price to the higher selling price, but this does not seem to interfere in any way with allowing capital an equal privilege of future payments?

A. Capital is built upon commercial credit, and if it seeks to overcome this dependence by supplying itself with future payments instead of relying upon a cash market, then a wide gap in time results which labor can not bridge.

262 Q. But there must be a reason for it. You simply make the statement that such a state of facts exists in harmony with your theory for a standard of capital value. What is the reason future payments for capital are prohibited?

A. Capital is not going out and coming newly into existence all the time like commodities. The price of capital is not consumed, nor is its money consumed to be newly created.

263 Q. But there must be a more important reason than any so far given. Your answer is not satisfactory; the explanation does not explain?

A. The reasons given are fundamental ones, but perhaps the explanation is lacking. Com-

mercial credit makes a cash market possible by waiting on both goods and buyers of goods to accumulate, and this bridge in time is furnished by a lag in wages. The time consumed while labor is waiting for its pay supplies all the waiting time which nature allows. When we create a system of payment extending over years of the future, we compel labor to wait years for its earnings, which means that it will totally miss such paydays.

264 Q. The answer is sufficient if true; you say long-time payment destroys the cash market for capital, and the only natural reason for future payment of any kind, is that wages must lag so as to allow money to get in advance of labor and provide a purchase power. May it not be equally true with capital in order to supply purchase power?

A. No; debts in the capital market destroy the benefit of the commercial loan. Nature punishes us by taking away as much of the cash market as we push capital into the future, because in so doing we pass by the time where we may connect the circulation of credit with the circulation of cash.

265 Q. All capital is based upon tomorrow, but only as tomorrow becomes today is capital valuable. It is evident that capital would re-

quire some years to be reproduced; why not, therefore, permit an equal deferred time without interfering with the cash market?

A. There is no question of reproducing the present supply of capital in the future; the only effect of future payment is to charge some one with a debt for present capital, which must be paid by labor in the future. Some one buys capital with a promise to pay money at a future time, and such money can never come into existence.

266 Q. You mean that when we go beyond a certain time limit with debts we can never pay them, but must always add to them, because we thereby destroy the power to create the money which the debt promises to pay?

A. Yes; I mean that long-time debts hold out of circulation a volume of money which would make capital payable in cash on demand.

267 Q. The point is far from clear. I may borrow to build and agree to pay when the building has been completed. I can not see how this proceeding may interfere with the circulation of credit, when in fact it puts credit into active use among laborers?

A. There is no objection to co-operation in building, by which the cost is borrowed from the

present to be paid out of returns of the building itself in the future. You are begging the question. The whole problem relates to the form of obligation, whether or not capital shall be sold for cash, carrying its increase in price along with it, or whether money shall be borrowed to be paid as cash in the future.

268 Q. This seems a mere play upon words, to sell capital stock which pays a dividend and which is guaranteed in money on demand, or to sell a mortgage paying interest, having the property as security, to be paid in twenty years?

A. The difficulty arises from not understanding the true nature of borrowing. All capital is loaned from society, and such a loan is made payable in cash on demand to prevent capital from becoming a burden upon labor. Society is punished by a contraction in the volume of money when long-time obligations are permitted.

269 Q. According to your view, it seems that a bonded debt of a railway, for example, will prevent the same railway finding a market for its transportation on account of some interference between the debt and the circulation of money, by which the volume of money contracts in proportion to the debt?

A. Yes; a permanent railway debt drives railway capital out of existence. Such debts cause a division in profits; a part of the whole profit is set aside to maintain the debt. The dollar of cash, instead of rolling over in the general market and compounding into five credit dollars, rolls over in the loan market and creates five dollars of debts which can not be paid.

270 Q. According to this idea, debts may increase to the point where they supplant credit, and thus make an end to the increase in debt and to the circulation of credit, forcing society to return to a cash basis, and thereby forcing a foreclosure of property to the creditor class?

A. Yes; room would be made for the debt without disturbing the total price of capital, and such room is made by a decline in the rate of profit. The debt, for example, divides the profit, giving one-fourth to the debt and three-fourths to capital, and the debt might grow until it absorbed more than half the profit, when it would probably cause the entire failure of industry.

271 Q. Suppose you have, for example, a total profit of one billion dollars per annum and a debt of five billion is created, which, however, equals the whole value of the property, but takes only two hundred and fifty million of the

profit to sustain it. This would leave seven hundred and fifty million as dividends on five billion of capital instead of a billion dollars in dividends, and the capital would command its regular price by a reduction in the rate from twenty to fifteen per cent. upon five billions?

A. Yes; and you have apparently added to the total wealth by creating a debt. You have twice five billions where only one five billion existed.

272 Q. What has really happened has been to set aside a certain amount of cash from the general circulation to maintain a debt, which prevents the same five per cent. from turning over as a part of a twenty per cent. dividend, and from repeating its capital price in the general market. This division in the rate of profit stops distribution and production of wealth in all directions where capital might grow by twenty per cent. dividends; it limits development to a fifteen per cent. basis, and permits all profits above this rate to be capitalized into new debts everywhere?

A. Yes; the fixed indebtedness operates to change the distribution of wealth to its concentration, by permitting owners to borrow the value of their property and yet have the property, all of which is brought about by a change

in the rate of profit which divides present from future payments.

273 Q. When we are once started upon a career of long-time debts, we keep increasing them until they finally stop all increase in wealth and concentrate wealth to a few money lenders?

A. Yes.

274 Q. How is cash tied up by a long-time debt?

A. The currency of a country is a credit and a debt combined, a credit to labor past and a debt on future labor, but this future debt is limited to the time required to allow money to get ahead of supply in the commercial market, and such time is provided in the lag in wages; but when this time limit has been passed, the connection between units of time saved and units of labor, which is necessary to create money, has been lost.

275 Q. Each particular property has its price, based upon a combined circulation, part credit and part cash, and when debts extend the credit part of the price beyond the time allowed to unite with labor, then the credit to pay the debt will fail to materialize?

A. Yes; capital, in particular, has its price, based upon one dollar in cash and five credit dollars, and if a debt retires a certain portion of this credit beyond the time fixed for its connection with labor, such credit is thereby destroyed by being offset by a debt.

280 Q. The power of the creditor class arises from the fact that they contract debts when money and credit is abundant, when one dollar of cash is keeping five dollars of credit in circulation, but when the time of payment arrives this volume of credit has been contracted by the volume of the debt?

A. Yes; the statement is true for long-time capital debts, while the opposite is true for commercial loans. In the commodity market the volume of cash is limited by natural law and may only expand by the creation of commercial loans, and such loans are always made in a narrow money market which the loan expands, and when the time of payment is due, the credit in circulation has made the debt easier to pay.

281 Q. That again raises a doubt concerning your debt theory, because there should be an expanding money market with capital in greater proportion than with commerce, on account of the accumulation of capital when compared

with a more or less fixed consumption of goods. The mystery is why a capital debt differs in such a marked degree from a commercial loan. The secret must be found somewhere in dividing the rate of profit?

A. You fail to distinguish between an increase in quantity of wealth and the necessity of a corresponding increase in volume of money. It is the failure in the volume of money to advance in company with the increase in wealth which gives rise to all our troubles of distribution.

282 Q. The accumulation of capital must therefore be represented by a corresponding and equal distribution of capital stock paying fixed dividends which each corporation must be able to redeem on demand in cash; and the increase in wages and bank deposits and the freedom with which bank loans may be paid must supply the volume of circulating credit to redeem capital on demand?

A. Yes; the total limit in the volume of credit is as follows: having a labor cost as a basis, we save a great number of time units in the surplus product, and if such time units unite with labor by employing it in any direction, then they change a credit derived from surplus goods into a greater volume of money with which to

continue to buy and to continually reproduce the greater volume of goods.

283 Q. There are about five such volumes of credit above the cash, which must exchange with cash and which must circulate directly among buyers. Give an illustration of how a debt may get around the natural law which requires the unit of time to unite with an equal labor unit in creating a volume of money?

A. With business prosperous, and with an ample supply of money in circulation, capital will have an unlimited market at twice its cost, but the new wealth must wait for the new circulation before it is expected to sell at any price.

284 Q. Yes; that proposition has been made clear.

A. The promoting capitalist borrows the cost price of his property and employs labor to create it, and he expects to sell it for twice its cost. He imposes upon the borrowed money the function of creating a new money to sustain the selling price of his property independent of its cost price.

285 Q. Quite true; but your promoter borrows profits from the commodity market, which at best may only be lost in an unprofitable enterprise. Where does the debt come in?

A. The borrowed money is represented by a bond, which equals the profit of one year multiplied by a number of future years determined by the rate, and this bond has a price in the market, which price has been created by changing the rate of profit instead of such price arising from an increase in the volume of money in circulation.

286 Q. You doubtless refer to what is known as monopoly value—the price of a privilege created by law, as apart from a price depending upon labor?

A. Prices rise on account of an expansion of credit, and any price above cost may become a pure gain to the promoter.

287 Q. The advance in price above cost means an extension of price into future territory, thereby demanding new dollars of money to meet the higher price in the market. But if a debt arises, the need for this present money is postponed and is set ahead of its necessary connection with labor, and the money required to meet the higher prices will fail to materialize?

A. Yes; but the failure in the circulation of the required volume of money will also fail to provide the profit which the promoter expects, and the higher price would not be realized and

would fall immediately to the labor cost, unless something else may intervene and put off the day of loss.

288 Q. You mean that the money failing to circulate in natural channels to keep up the price, may circulate for a time in artificial channels?

A. Yes; because owners of property will resort to any device which may limit or postpone a loss in price.

289 Q. It seems to be your theory is getting ahead of your facts. You doubtless refer to artificial channels which lengthen the time required to supply the greater volume of money, and that this time is provided by a long-time debt?

A. Wherein is this theory ahead of the facts?

290 Q. Go backward to commodities; the rise in price above cost depends upon the employment of secondary labor in creating the very capital for which time is extended into the future?

A. Yes, that is true.

291 Q. I want to discover how the debt changes the situation, because this rise in price above cost is always attached to a concrete

object, and it is unthinkable to offset it by the fictitious price of a debt or by a monopoly price?

A. You are right; price must attach to a concrete object, the same as weight is concrete, and price must be balanced by being able to attract a volume of cash on demand, the same as weight must be balanced by an attraction of gravity.

CHAPTER XII.

DIVISION OF THE RATE OF PROFIT.

292 Q. Going back to your illustration, profit is borrowed from the commodity market and is spent to employ labor. You admit that the entire capital property might become a total loss without damage to the general market, but you hold that if the promoter is successful, and if the capital is based upon a long-time debt, it will result in very great damage to the general market, although the capital is saved from loss on account of a debt which at most can only equal half the value of the property?

A. Nature often seems inconsistent when we fail to understand the purpose back of her works, but the very difference between a failure or a success involves different demands upon money. If the capital was lost it would have no market price and would make no demand upon the currency, but if the enterprise is successful it will command a market price, and therefore it must be provided with a volume of money from some source.

293 Q. You mean that the property becomes a success by creating a demand for additional labor, and in so doing it must originate its own

volume of money; that it will not be permitted to lean upon its borrowed circulation any longer than the time nature allots for this purpose?

A. Yes; all capital is expected to become self-sustaining by creating a self-sustaining money of its own.

294 Q. Well, the question yet remains, assuming the capital property is a success, how can the owner prevent the new labor and the new product from creating the money required automatically, by natural law?

A. By dividing the price into two parts, one part of which returns money to circulation, while another part does not so return money and is balanced by the perpetual debt.

295 Q. You mean the whole price does not return to circulation, but only so much of it as is represented by labor? How can price exist unless it is constantly able to sell for its money value?

A. By not selling for its money value, but by agreeing to produce the money value in the future.

296 Q. This is begging the question. The owner would have no interest in destroying his own cash market. How does this separation

occur from a present price to a future promise to pay?

A. It occurs by dividing the rate of profit.

297 Q. You mean the rate divides and thereby divides the time of circulation; the slower time allows a longer period for the annual profits to equal prices, and thus a twenty per cent. rate would reproduce one thousand dollars in five years, while the same profit divided into two ten per cent. rates would create two prices of a thousand dollars each in ten years?

A. Yes; and this change may become fatal to the circulation of money when the time is extended beyond the period required to reproduce commodities.

298 Q. So far the subject clears up to some extent; that is to say, we get a division of the circulation by a change in the rate of profit, which makes an equal change in the time of return. A twenty per cent. rate means that a definite sum of money will return in five years, while a rate of five per cent. would return only one-fourth the money in the same time?

A. The low rate would postpone the time beyond the period nature allows, and would cause a certain part of the money paid out to fail to return.

299 Q. It seemed sufficient to say that the period of circulation had lengthened out at the expense of the volume of money, and now you discover that this extension of time makes a corresponding volume of cash sterile—makes it fail to give birth to its family of credit offspring?

A. Yes; permanent debt is a disease of the body politic, and its full explanation requires us to go to the cause of the disease in the failure of the reproductive function.

300 Q. But you uncover a greater difficulty than we have yet considered, because debt attacks all forms of property, and you must explain how the first dollar is made sterile?

A. This occurs when land takes a price. Each dollar represented by the price of land has lost its reproductive power.

301 Q. You mean that land is not a labor product, and therefore when land acquires a price it divides the circulation of money by dividing the profit between land and capital, giving land a part and capital a part?

A. Yes.

302 Q. How does this occur?

A. All capital must arise upon a foundation

of land, and in the beginning the land is furnished free.

303 Q. Very true; but all commodities arise from land, which in the beginning is furnished free?

A. We may begin with commodities to demonstrate the rise of debt, but the complete separation does not occur until capital enters the problem and the rate of profit divides.

304 Q. The profusion of nature secures the first surplus supply, and it goes to the land owner as profit, who thereby employs other labor to make his improvements and to develop his land, and he gets this labor for nothing?

A. But in so doing the landlord does no more than if land was as free as the sea, if the surplus was in fish and if fishing was a joy.

305 Q. You mean that trouble can not arise until there is an investment in land, until land is regularly bought and sold in the market?

A. Yes: when prices advance above cost, the spread of industry will increase the demand for goods, and then land may command a price consisting of the profit in higher prices to be derived from future crops.

306 Q. If land sells at a price determined by the profit from future crops, the effect of selling

land is to offer future crops in competition with present crops, and therefore to divide the available money by taking off a part in payment for future crops when buying land?

A. Yes; the land will command a price based upon an income equal to an income from capital.

307 Q. Assuming that dollars grow into more dollars, this land-owning proposition substitutes growing crops for growing money?

A. Your question is exactly right; the idea is general and seems almost ineradicable, that growth from the soil may be coined into price, that products from land have an intrinsic value, and that quantity of value arises from adding up the intrinsic values of natural products.

308 Q. Is not Ricardo's famous, or perhaps it were more to the point to say *infamous*, law of rent based upon the proposition that products have an intrinsic value which is imparted to labor in proportion to the exertion or distress the labor occasions, and that all surplus wealth is to be attributed to a saving introduced by a growing process inherent in land or coming from capital; that progress comes not from nature in general, but comes from land in particular?

A. Yes; but Ricardo's law of rent gained

strength from the fact that there is a natural process which continually separates labor cost from advances in price above cost. This separation is made necessary by the difference in time between the cash and credit in circulation.

309 Q. Ricardo claims that a natural law drives men to use continually poorer land, which results in a constant diminishing return for the same amount of labor?

A. Yes; Ricardo thus introduces a most infamous standard by which to measure the value of labor, and the law of diminishing returns has as yet almost universal support in our literature.

310 Q. According to this *iron law of wages*, value is intrinsic and comes from the soil, and labor must measure its feeble strength against the earth itself, and labor derives its value from the intrinsic value of products?

A. Yes; all increase above this diminishing return to labor is said to rightfully become the property of the finder, because there is no better claim from a superior owner. The claim of labor being exhausted as it is driven by the pressure of want to use poorer and poorer soil.

311 Q. When the most exacting labor is exerted upon the most niggardly land and barely

suffices to keep body and soul together, then this Ricardo measure is said to fix the reward which nature bestows upon labor?

A. You state the "iron law" correctly, and when the same measure is carried forward to capital it holds that all improvements in machinery, in arts and sciences by which other gains arise, are likewise determined by this iron standard, and that wages can not increase except by some kind of charity or by labor organizations or government ownership or some other restrictive legislation.

312 Q. According to this law, nature is ignorant and niggardly, while economic writers are wise and generous?

A. Yes.

313 Q. But surely Ricardo has not been without opposition in the spread of this fallacy?

A. No; but the proof seemed in his favor. The most convincing criticism has come from a protective tariff economist, Henry C. Carey, who published his works in 1837, and attacked Ricardo's law of rent as follows: "We now proceed to inquire what would be the manner in which this necessity to having recourse for supplies of food to *machines of constantly increasing inferiority* (as is claimed by Ricardo for land).

“Let us suppose that instead of commencing with axes of stone and rising to those of iron and steel, the first had been of steel, but that there was a daily increasing difficulty of obtaining such, and that the settler was gradually reduced to the necessity of having recourse to ‘inferior’ axes, falling from those of iron to others of stone, and see what would be the effect.

“1st. With every increase in the necessity for axes, there would be an increasing difficulty in obtaining one capable of doing the required amount of work.

“2nd. Every new axe being worse than those previously used, there would be a constantly diminishing return to labor.

“3rd. Each year would see an increase in the value, estimated in labor, of all previously existing axes.

“4th. Each year the owners of those of steel or of iron would be able to demand a larger proportion of the product of labor in return for the loan of one.

“5th. Each year there would be a *‘diminished proportion retained by the laborer,’* attended by a constant diminution of his wages.”

Thus Henry C. Carey reduces the Ricardo law of rent to an absurdity, and Ruskin was justified in saying that “nothing in history has

ever been so disgraceful to the human intellect as the acceptance among us of the common doctrines of political economy."

314 Q. You demonstrate that labor cost is the foundation upon which the gain in wealth is built; that labor cost separates the circulation of cash from credit, dividing about one-fifth of the money in circulation from the remaining four-fifths?

A. Yes; and this process creates a standard measure of value for labor which is the very opposite of the one proposed in Ricardo's law of rent, for it produces a continually increasing measure of wages instead of a continually diminishing one.

315 Q. How is that?

A. As the labor cost increases from the use of poorer lands, the labor unit of the cash circulation increases, thus giving to the credit circulation a similar gain. The total cash required increases as labor is driven to poorer lands, and from this greater circulation of cash five greater circulations of credit arise, and labor should not only get a greater aggregate in wages, but each dollar of an increased wage should buy a greater share in machine products constantly diminishing in cost.

316 Q. Progress in other directions more than counterbalances the use of poorer lands?

A. Yes; that is the law Henry C. Carey sought to work out.

317 Q. We come now to the fact that land owners control the increase in price in some manner, and this control is said to result from growth inherent in the soil. In theory, at least, the land owner may drive the landless off the earth, and may therefore allow them to remain on condition they surrender all the wealth they produce, save enough food and shelter to keep labor in working condition?

A. Yes; in theory the land owner may drive the landless off the earth, and in theory an oppressed people may rise in their wrath and destroy their oppressors, but neither theory has a basis of fact upon which to build.

318 Q. You hold that the power of landlordism arises from dividing with capital the surplus profits of industry, and that the price of land rises as the rate of profit declines?

A. Yes; the claim is boldly made that wealth belongs rightfully to labor and that the landlord has no particular power over the laborer; the landlord may have the power of oppressing labor as an employer in a crowded labor market, but with freedom of labor to produce as

much as it is able, no power may contend against it.

319 Q. The problem, however, is to discover how it comes about that private property in land, in its present form, is responsible for practically all the distress which afflicts humanity in our own times?

A. The present land system is an evil on account of the pressure of an enormous debt, whereby creditors secure all wealth from labor by a change in the circulation of money which enables the owners to buy wealth on time, while the day of payment never matures.

320 Q. You would then shift responsibility from the land owner to the money lender?

A. No; the land system is alone responsible; it is the cause of inequality of every kind in human affairs; the money lender is its final effect. It is not the land owner who finally gains all wealth, but it is the money lender, who forecloses the mortgage upon labor represented by the price of land and brings true the end of the world as Hogarth has pictured it.

321 Q. Accepting as true that the price of land is an irredeemable debt, always collectible and always renewable, it remains to demonstrate how the debt originates in its peculiar

form. You say it is not essential to begin the explanation with the simple forms of labor applied directly to the soil, but it is better to begin when profit accumulates and creates buyers for land?

A. Yes; the moment a surplus of food or other product is exchanged for land, the price of the food separates into two parts; its total price divides between cost and credit, and property in land then begins to hold the cost price down and absorb all the gains in credit by an advance in its own price.

322 Q. And in doing so the price of land prevents the progress that nature has in store from a widening distribution of the increase in wealth, and each civilization has been arrested and destroyed when the price of land absorbs the credit of a country?

A. Yes.

323 Q. Suppose a certain boundary of land returns no rent or profit, but merely pays wages to its labor, while a similar boundary returns ten per cent. of its proceeds as profit, how does this rise in rent bring about a change in the circulation of money?

A. The price of the land will be based upon this profit. The profit for one year will be

multiplied by as many years as the rate will determine, and in so doing a price of land arises from absorbing the time saved and by uniting the units of time with units of land in the price, and thereby displacing a measure of labor. The price of land is derived from the profit of the future crops, and therefore its price can not maintain a circulation of money, because the units of land in the price will not replace labor units in the volume of money.

324 Q. We seem now to be getting to the point where the cause of social disease may be laid bare; this unit of land replacing a unit of labor destroys the fertility of money by destroying its labor content?

A. Yes; when the rate divides that part of the rate which creates the price of land, changes the distribution of wealth into the concentration of wealth. When credit changes into a debt the turnover in credit ends, and the turnover in production changes to a turnover in distribution by which the ownership of wealth concentrates.

325 Q. When land first commands a price, does its rate of profit compete with money at interest in the commercial market?

A. No; money is confined to narrow limits by natural law, and land being open on all

sides, it must compete with capital as an investment.

326 Q. If there are different rates of profit for capital, and no doubt there would be as many rates as there were lines of development, would investment in land attract all the surplus capital above the average rate?

A. Yes; and under the general open conditions illustrated in new country, a rate of profit of two per cent. per month or more is general.

327 Q. Begin with an illustration of the settlement of a new country, land being free to first comers. They bring tools and money with them and are connected with an older civilization.

A. Such is the only practical method of explaining the land question. We need connection by railway, a village growing into a city, with secondary industries in operation and with banks in existence. To explain modern problems we need a modern stage to set the drama.

328 Q. The condition is admitted, and in the beginning we have the first settlers taking up farming and providing food and shelter for their families and congregating around a center which later becomes a village?

A. We need not rely upon our imagination,

but may illustrate with a section of our own country in any state like Iowa, Nebraska, Oregon or California.

329 Q. Use a definite period of about ten years, but show first, if you can, the natural laws of growth and circulation of money without land being bought or sold, and then show how a price for land wedges off unequal shares of wealth?

A. There are three factors to consider which unite to create prosperity, namely, land, a working population and a circulation of money. Nothing else enters into the problem, and all else arises from these three factors.

330 Q. Then you omit capital as a controlling factor?

A. Yes; the circulation of money gives rise to capital.

331 Q. It is quite clear your three factors will explain all the facts; land supplies all the raw material, and from this raw material money circulates with which labor creates all the capital, and the demand for labor constantly grows along lines of the greatest return for the least exertion?

A. We could take up each line of production in its turn and show how food supplies increase

rapidly, how commerce starts and how banks originate, and how a given population requires a given volume of cash.

332 Q. This limit in money is a new idea; the prevailing one seems to be that you can not have too much cash, and your idea that a given population may keep only a given volume of cash in circulation should be explained?

A. Cash will come to the commercial market and go from it according to discounts on bills of exchange; a given volume of cash must be held in circulation for food, and another sum of cash is used in commerce; this second sum rises and falls according to prices and according to trade.

333 Q. Is the capital supplied with money from the bank circulation?

A. Yes; there must be an increase in cash to follow the increase in production, but all capital accounts will depend upon a bank-check circulation.

334 Q. This has been made clear; the profit of merchants is equal to half the selling price of goods; this profit creates capital, and with capital all improvements upon land develop and the community grows its own money while creating its wealth?

A. The truth is clear if only the facts in large blocks are considered together, as we are now seeking to consider them.

335 Q. Suppose you take a territory having a population of one hundred thousand people, and at the end of ten years half of them live in a city of fifty thousand population?

A. So consider the problem and you will discover: 1st, the raw land is being peopled at an average rate of ten thousand a year from the older settled country; 2d, without wealth in the beginning the new wealth will double once in every four years or thereabout, until the natural resources are all improved and furnish all the work the labor may perform; 3d, this increase of wealth should not stop when the land has been fully occupied, but should change with a changing population at the same rate.

336 Q. It is being assumed, of course, that wealth is distributing among this population according to the ability of labor, and therefore the growth in wealth creates corresponding changes in the condition of every one in the community. In the beginning all were poor, and supply and demand was accordingly restricted in quantity and quality, but as wealth spreads the demand for human ability spreads

as rapidly, and includes every variety of labor?

A. Yes; but there is a social change to which I would refer more particularly, because the gain in wages to each individual might be wasted in mere pride of display and in greed. Society grows with a purpose, and grows according to a superhuman plan. The individual must find his greatest happiness and find his success in helping to promote this plan and purpose.

337 Q. This may be something that is usually overlooked in seeking explanations?

A. The growing population first develops capital in towns and cities, and if the growth is allowed to continue it would spread a corresponding gain to the surrounding country.

338 Q. How about wealth doubling every four years?

A. I am aware that a geometrical progression is not possible, but it is true, nevertheless, that a progression which starts with seeds will grow in geometric ratio until the capacity of the earth is reached; the fertility of the soil is not thereby exhausted, as society is exhausted in an old civilization, but increases. The growing organic world each year gives up its harvest and provides for reproduction

while constantly improving the organic type, and constantly increasing the fertility of the soil.

339 Q. Is the development of the individual man the basis of progress?

A. Yes; but the progress which needs particularly to be explained is what has well been called the capital system of production, where-by millions of individuals co-operate.

340 Q. You need capital to constantly replace the old wood with new, to tear down and rebuild, so that each succeeding change will be better than the one it replaced?

A. Yes; in every conceivable direction a constant change is demanded by a growing society; small factories with newly invented machines must give way to improved machines, and these again to greater factories with newer machines. Roads are everywhere demanded, harbors and ships change, buildings are as rapidly outgrown, steam replaces hand labor, and electricity replaces steam.

341 Q. You want to avoid an arrested civilization wherein some force interferes with this continual expansion and renewal of wealth?

A. Yes; civilization spreads; it grows like a great tree having wide interlacing branches

with leaves, and when the tree is cut off from light and air, the leaves fail to return vitality to the trunk and the working roots are made powerless and die.

342 Q. This primary vital force has already been explained as a constant circulation of profit, in which selling price is always double the cost price?

A. Yes; and to carry this truth to its logical conclusion, we advance from a dirt road to a paved street, from gutters to a modern sewer system, from defiled water to softening and purifying processes. Gains are arising for the entire population everywhere; the new is worth more than the old, because selling prices are always higher than cost prices, and for no other reason.

343 Q. But to return to our new community; it was beginning to increase rapidly in wealth and population, growing at the rate of ten thousand newcomers a year, and doubling in wealth every four years for the first ten years at least. We are considering this community as growing freely from a rise in prices above cost and from an unimpeded circulation of money?

A. We may jump the intervening years of development and take an existing example

where one hundred thousand people occupy a territory in the center of which is a city of fifty thousand inhabitants. Here will be found all forms of modern investment, retail and wholesale establishments, electric street cars, steam railroads, hotels, theatres, water and gas, and thousands of homes, farms and villages and factories of many kinds.

344 Q. What is the most important fact to be first observed in summing up this development?

A. It is that nothing existing here has come from the outside; that the wealth was all created within this territory or exists because some surplus product has been exchanged for it

345 Q. That would be apparent without particular comment, and why lay stress upon this fact?

A. To explain the cause of the unequal distribution of wealth and the utter absence of any reason for it.

346 Q. How would inequality be explained by wealth not coming from the outside into this community?

A. Wealth in every community is now explained as necessarily depending upon outside

capital, and each community is said to be compelled to surrender to such capital the sources of wealth, and it is argued; the existing debts represent this dependence upon outside capital.

347 Q. When you call attention to the fact that no material wealth in the community came from the outside, you demonstrate that debts are not necessary, and are therefore an injury to any community?

A. Yes; the fact should be self-evident, that a new civilization can not fatten from an old one, and draw support from it, even in the form of a loan. It is true that money from the outside is loaned in new communities, but such loans are made to permit individuals to acquire unearned wealth and are not required for development.

348 Q. If this is true it is interesting. Any city could then begin now and rebuild itself upon modern lines without debts, adopting every new wrinkle of modern science, and could do so as rapidly as its labor could accomplish the change, by merely providing against unequal wealth?

A. Exactly so.

349 Q. Each city could own its own street-

car system, its light, gas, water plants, pave all of its streets, build modern tenements and other buildings and create public parks, providing the gains were not permitted to fatten into unequal wealth?

A. Yes, and more; it could rebuild every building in the city, and if it desired have municipal stores, own all its own factories, and join with the state and general government in owning all outside utilities.

350 Q. Of course this is an opium dream intended merely as an illustration?

A. It is intended to show that nature halts all progress in proportion as we permit wealth to fatten indolence and promote greed instead of rewarding industry. I merely state the truth when I say there are no limits to development except the limits of natural resources and the limit in power of labor and machinery; and, moreover, the insurance against unequal distribution is an insurance against the accumulation of debt. Since improvements must be made to pay for themselves, why not, therefore, have many of them?

351 Q. Well explain, with your illustrative community, how this change may be realized?

A. To begin at the bottom, we find after ten years that the wealth in this community is

about fifteen hundred dollars for each person, as shown by an appraisement of property at market prices.

352 Q. This will be admitted; say one hundred and fifty million dollars in value of property of all kinds?

A. This wealth will now be divided in about the following proportions:

50,000 will have nothing; 35,000 will have five hundred dollars each, \$15,000,000; 10,000 will have two thousand each, \$20,000,000; 5,000 will have ten thousand each, \$50,000,000; 5,000 will have the remainder, \$65,000,000.

353 Q. Would you have the wealth divided equally and ignore the particular ability of men to make money?

A. We will inquire into that particular ability.

354 Q. In this distribution of wealth among five classes of people, there are about fifty castes, separating the people from each other socially upon the theory that differences in income and differences in wealth confers a personal distinction, which demonstrates the superior individual?

A. If the source of present individual fortunes is examined it will be discovered to have its roots in debt.

355 Q. The first arrivals secured the best locations and the most desirable and fertile lands; they were first to go into merchandizing and reap heavy and early profits; were first in organizing industries and took off their reward; were in on contracts for public works, and others made fortunes from the rise in real estate, and from the growth of capital in corporations?

A. Yes; this is the source of existing wealth; nowhere is wealth representing the earnings of industry.

356 Q. But how may it be otherwise; some one must occupy the best locations; must farm the lands which are more or less fertile, and must begin new lines of development in every direction, and they deserve success when it comes to them?

A. You beg the whole question. It is not a question of preventing rewards, but of rewarding the right people, so that the rewards may not stop, but may continue in a greater and not in a lesser ratio.

357 Q. You mean that filling up natural resources with owners is not an apology for inequality in wealth?

A. Exactly; the rise of price which constitutes a reward should be taken off repeatedly,

whereas it may be taken off but once when it is taken unjustly. Nature stops the process when inequality in wealth takes place. It is not that capable men become wealthy, but that their wealth is based upon fraud which places heavy and uncalled-for burdens upon other men who seem to be and who thereby become incompetent.

358 Q. But incompetence must cut a large figure in all development, and it is now only more conspicuous because it is confined within a short and measurable time and in a visible territory under rapidly increasing wealth?

A. Let us examine and see where the people came from who inhabit this new territory and acquire such sudden wealth.

359 Q. They are attracted from the older civilizations, where they had no chance to acquire wealth?

A. They had no chance, well, for the same reason perhaps the men who fail to share in the new wealth have had as little chance? Were the newcomers wealthy when leaving the old settlements and did they take wealth with them?

360 Q. No; as a rule the men going to where land is free are the landless and are of the poorer classes.

A. Exactly; but meet with them ten years later and they have blossomed into candidates for the United States Senate, because they feel that their own estimate of their wealth and importance is the common standard of the country, however fraudulently the wealth has been obtained.

361 Q. But do you contend there is no difference of capacity in men acquiring wealth?

A. On the contrary, I contend for unlimited differences, for as much variety in ability as is found in ten million faces, where no two resemble each other, and each is distinctly a different person, but I also claim that the present acquisition of wealth has no deserving element in it as a rule, and that the exceptions prove the rule.

362 Q. You would not get much support from the successful for your theory?

A. Well, however that may be, let us reverse the proposition and reduce the theory of individual greatness to its final analysis. Let us return the hundred thousand people to the places from which they departed and give to them the benefit of ten years' experience in acquiring wealth, how many would then succeed at home?

363 Q. None of them; they could never get

a start after ten years' absence. Hindered with new families, it would be a modern invasion of beggars, whom charity alone could keep alive.

A. We are considering something of greater interest, namely, a city beautiful, without debt.

364 Q. Yes; as the community grows in working population you say it attracts its proportion of cash from the world's supply on account of its commerce with the world?

A. Yes; and with this supply of cash its standard of value is fixed in common with all the civilized world, and its capital and wealth will then depend upon the activity of its own workmen and upon the circulation of cash assisted by credit.

365 Q. Also admitted.

A. In this community there is no price for land, and therefore there will be no desirable locations which are not improved in some manner, and when the price of each improvement advances to twice its cost it reaches the upper limit of its price.

366 Q. Taking farms for the first example, there is no land but which is being farmed in greater or less tracts, and yet they differ

greatly in net returns. How would prices for improvements alone determine value?

A. The land would be improved rapidly with buildings, fences, ditches and the like, which value would always be in demand at twice the cost; exceptions might go higher than twice the cost of improvements in particular cases, but as a rule this difference in price of improvements would give enough elasticity in price.

367 Q. There might be some further compensation in taxes?

A. There would be, since all taxes would necessarily be derived from excess in profit upon land, and all other forms of property must as necessarily be exempt, so as to prevent municipal and other debts from coming into existence.

368 Q. You make the system of taxation the natural outgrowth of development, in order to avoid long-time debts?

A. Yes; public improvements of all kinds should be worth twice their cost, and therefore they add more price to certain property than they cost.

369 Q. Your city beautiful seems to be crawling out of the mud?

A. No, not yet; in the growing community the division of laborers into primary and secondary takes place rapidly, and soon provides as many secondary laborers as there are primary, and thereby establishes a profitable price for every commodity.

370 Q. The wage of secondary laborers will then be provided, and a regular battery of builders whose sole occupation will consist in building and rebuilding and for whom there is an ever-increasing fund from which to pay them. Would it not be well to explain this?

A. The continued sale of commodities at a profit results in continual expansions of bank deposits, which go out into profitable building, and do not interfere with the source or renewal of such deposits.

371 Q. The buildings when completed become a second source of wages and deposits; a store building, for example, in a central location attracts more buyers than elsewhere at a uniform price for goods, and the increasing sales bring greater profits on account of the time saved to buyers.

A. Yes; and the continual growth expands central locations from one into many, each location being perhaps of a slightly different

grade, but each returning more profit than is obtained from other buildings in the city.

372 Q. This gain has a tendency to run up the price of such buildings, when the rise in price is checked by an increase in number of surrounding buildings?

A. Yes; as the price rises, and as experience has been gained, it is not the first building that accommodates itself to increased growth, but the later ones, which are built with more conveniences for the public and which put the earlier buildings out of date.

373 Q. Then the older buildings would halt in price at twice their cost?

A. Yes; and they would give way to newer ones as this price was being approached on account of the greater profit to be secured from a more costly structure to replace them, selling at a greater profit on account of greater cost.

374 Q. You are assuming that money grows from natural processes, and you are leaving the individual out of consideration; are you not forgetting that particular men are required to have money so as to carry out particularly expensive works?

A. On the contrary, I am considering the individual in his place, and obviously I am

forced to ignore the wealthy builder in this community because I have not produced him. The process of making men of wealth is not working.

375 Q. The supply of money then grows from an ever-increasing supply of new improvements, requiring another division of laborers to furnish new services?

A. Yes; and as this demand for labor grows it keeps adding an ever-increasing volume of bank checks to the circulation, and when the number of workers necessary to operate capital equals the number of other workers, then wages will carry a surplus in bank checks equal to the money required to buy all the commodities.

376 Q. Do you mean that laborers could not spend all their wages for goods if they wanted to do so? That there is a fund so much greater than primary demands that it must seek secondary investment?

A. Yes; such is the claim. A single individual, however, may spend all his wages and a certain number may also do so, but when the entire population is considered, the very attempt to spend all the wages for goods defeats itself by a rapid advance in price, thus saving the gain but allowing the merchant to get it instead of the laborer.

377 Q. Having established your investment fund, proceed to explain how it works in getting money from millions of workers for great enterprises?

A. The gain in check circulation which is seeking investment promises a golden harvest for building promoters, because profits are running at a twenty-five per cent. rate, returning the investment in four years.

378 Q. Buildings will sell like commodities for twice their cost, giving builders a merchant's profit, which they in turn invest?

A. Yes; and wealthy capitalists will be superseded by the cash capital market, ready at all times to buy shares in every profitable enterprise and to furnish all new capital.

379 Q. You avoid debts by selling stock to innumerable investors?

A. Yes; except temporary loans in the commercial market, fixed debts have no opportunity to grow because the rate of interest is against them, and the necessity for long-time debt does not arise.

380 Q. You then equalize the price of income property with the price of capital stock payable on demand?

A. Yes; the price of each improvement must

depend upon its own money, and all capital must be represented by an interest-bearing security.

381 Q. Would the cost price be the basis of capital stock, or would there would be two classes of securities?

A. I believe that natural corporation development would require two kinds of securities. giving the men who will not assume the whole risk a lower rate, which they willingly accept.

382 Q. But you have no securities to be retired upon the theory that a building must pay itself out of debt?

A. No; there would be nothing anyone would consent to retire, and everyone would want more rather than less capital in circulation, paying good dividends.

383 Q. With two classes of stock you would require some insurance?

A. Yes; all capital stock would have to be made redeemable in cash on demand, principal and interest, by an insurance fund to accumulate from the profits of the property or to be provided by the promoters and investors.

384 Q. You would prohibit mortgages and bonded debts of every description and limit all loans to commercial paper?

A. Yes.

385 Q. How now about the city beautiful? You have an original money mill working overtime and doubling its own volume on the slightest pretext. The more you build and spend, the more money remains for further spending?

A. The operation is simple enough. Whenever any enterprise will pay for itself, the securities to create the improvement may be issued fearlessly, because from its very start it becomes the means of its own success.

386 Q. Suppose a city could ignore value of land and tear down old buildings to replace them with new ones, how would they begin?

A. They would give twice the cost of the existing improvement, as the upper limit in price in order to gain possession of land, and where there is no improvement the tax rate would soon give them possession by forfeit.

387 Q. Issue securities to pay everything?

A. Yes; on the principle of one railroad helping a branch line to become successful by guaranteeing its securities.

388 Q. Securities are never to be paid, but are to circulate. What kind of a guarantee would be required to keep them at par with cash?

A. A sinking fund large enough to pay any holder cash on demand, with interest to date.

389 Q. But with billions in circulation, would not the sinking fund become a great strain upon resources? All the holders might demand cash in short order?

A. There would not be the slightest danger, because such securities would be issued in \$100 certificates and its multiples, and would circulate as money or be held as investments, and each corporation would stand upon its own foundation; there could be no general panic of security holders.

390 Q. This scheme would doubtless make each security eminently safe and would put Wall Street out of business. But how much reserve will be needed and what rate of interest do you estimate the securities must bear?

A. By this plan the general or municipal government would have a great advantage in many lines of development over the private corporation, owing to the low rate of interest now prevailing and owing to the lower reserve the government would require.

391 Q. Assume any municipal government decides to wipe out its present indebtedness, how would it go about it and how much reserve would be required?

A. If the debt to be discharged now pays four per cent. interest, the change could be made without cost.

392 Q. Very interesting, indeed, and it beats frenzied finance, but please explain it?

A. There can be little doubt, for example, that a bond of \$100, paying one cent in interest each day, or three dollars and sixty-five cents for one year, on demand, would be much superior to a limited term bond paying four dollars a year and payable at the end of twenty years.

393 Q. Yes, very true; but the sinking-fund proposition?

A. The government would be as safe a depository as are the savings banks, and such banks now maintain three billion dollars of deposits, which are practically on a cash basis by a reserve of less than one per cent. Hence it is safe to limit the reserve at five per cent.

394 Q. According to your statistics, the reserve seems ample; now illustrate how a community may wipe out a million dollar four per cent. debt by substituting a three and sixty-five hundredths per cent. corporation stock redeemable in cash on demand?

A. A million and fifty thousand dollars in stock could be sold, bearing three and sixty-five

hundredths per cent. interest, and become less of a charge upon the community than the debt, as one would require \$40,000 a year interest, while the other would demand but \$38,350.

395 Q. Very good; I see a million of debt disappearing by creating a fifty thousand dollar reserve fund without calling for money. How about corporation securities?

A. The change with corporations would be more difficult; that is, with the old ones, but new corporations should be required to supply a cash surrender value for their issue of securities.

396 Q. Then instead of promoters furnishing capital, they merely furnish a sinking fund and sell to the public a kind of insured money to any amount the public will invest in. How about the unsuccessful?

A. The unsuccessful would have a short life, because the insuring corporation must first guarantee the general character of the enterprise, and as each share of stock carries with it an increase in price on account of interest payments, the reserve would not last long if the company failed to make good, and each corporation would expand and contract its capital automatically by the operation of its own sinking fund.

CHAPTER XIII.

BANKING.

397 Q. We have wandered a long way from our prosperous community, and now in order to fully explain how the land system can be made responsible for every kind of modern injustice and inequality, it seems necessary to return to the illustration of a growing community, where land is bought and sold as though it were a labor product?

A. In the beginning the land upon which the people settle is free, and therefore there is at first no impediment to the increase in wealth.

398 Q. It is well that such should be the case, because the settlers bring no wealth with them, and if land had not been free they would have remained where they came from?

A. It would be tedious to go over the principles of production again, and let it suffice therefore to say that up to a certain time each member secures the land he desires and as much of it as he can find labor to use.

399 Q. The stipulation is granted, and therefore you have a village with its individual stores,

its tin shops, its carpenters and blacksmiths and a village bank?

A. It will be admitted that a division of workers will take place in the beginning of development and that this division establishes primary and secondary classes of laborers, which creates a profitable market for goods and provides employment for all kinds of labor.

400 Q. Yes; this cause of rising prices and of a continuous profit has been established. What is needed is to explain the connection between the rise in price of land and the circulation of money?

A. The most important fact to be kept in mind is that only a given per capita of cash may be kept in circulation and that all capital must arise from the circulation of bills of exchange, commonly known as bank checks.

401 Q. Which means that production must depend upon distribution, and therefore is closely connected with the circulation of money and with banking?

A. Starting our explanation with the circulation of money, let us say the volume of cash in our community at a given time is two hundred thousand dollars and is limited to this sum by the laws which govern its own circulation, and this central cash will increase or diminish on

account of the trade between the community and the outside world.

402 Q. Does cash money come into a community or go from it according to rates of exchange? At a given price level the community uses a certain volume of money, and it may attract more money by discounting this price or it may dispose of surplus money by accepting such discount from other communities with which it trades?

A. Yes; and it is important to bear in mind the limit in this primary cash and to remember that local demands for capital must have a local supply, which is furnished by banking.

403 Q. With the given cash circulation limited to two hundred thousand dollars, to be supplied by a bank, proceed with your illustration?

A. We proceed then with a bank which has loaned out two hundred thousand dollars of cash to merchants and to employers of labor.

404 Q. The bank statement would then show: Capital \$200,000; Loans, \$200,000; Cash, Nothing; leaving a large vacancy for deposits, which are not yet in evidence?

A. Very well; money has been employed to pay labor for producing commodities, and

twice as much is produced as the wages of the labor so employed will consume, leaving a surplus of commodities on hand, but no market.

405 Q. Correct; and one or the other horn of a dilemma now presents itself: First, if the price of commodities was to fall to cost so as to allow only the actual producers to buy them, the non-producers would starve and the money loaned by the bank could not be paid and the failure to make a profit would stop all industry and would require each family to take care of itself?

A. Yes; but we admit the division of labor, and by our illustration we pay out \$200,000 in wages and have a surplus of goods valued at \$200,000.

406 Q. I am anxious to know how any of the surplus may be sold?

A. The laborers wait twenty days or more for their pay, and this waiting permits a first installment of goods to sell for an installment of money equal to twice the labor cost.

407 Q. For example, when fifty thousand of the two hundred has been paid in wages, it is being spent for goods which cost only twenty-five thousand, leaving a profit to merchant and manufacturer of twenty-five thousand?

A. Yes; the manufacturer gets his money from the merchant and the merchant from the people, while the goods themselves are waiting to be paid for.

408 Q. You have sold goods costing twenty-five thousand dollars for fifty thousand retail, and the gain must eventually come from the credit circulation, while you have taken cash for this purpose?

A. Only temporarily, the profit goes to a bank where a deposit then appears.

409 Q. The bank would then have to make a new statement, which would be as follows: Loans, \$200,000; Capital, \$200,000; Deposits, \$25,000; Cash on Hand, \$25,000?

A. This is correct; and there is a contraction of cash outside which is immediately felt in the market, and results in a rush to the bank to get this money returned to trade and the bank increases its loan account.

410 Q. But the bank could not then loan the entire twenty-five thousand because its depositors may demand twenty-five thousand and the bank must keep a cash reserve?

A. The bank protects itself in two directions; it will require the man seeking the new loan to maintain a deposit account, and it will also

keep a reserve in cash sufficient to pay all checks.

411 Q. Suppose the bank loans twenty thousand of its first twenty-five thousand of deposits and thereby gets an increase in deposits of twenty thousand from the borrowers, how would the bank statement then stand?

A. Assuming a ten per cent. cash reserve is required to pay checks of depositors, the bank statement would be as follows: Capital, \$200,000; Loans, \$220,000; Deposits, \$45,000; Reserve at ten per cent. of deposits, \$4,500; Loanable Surplus, \$500.

412 Q. The bank may only loan five hundred dollars and the outstanding cash has been reduced in volume from \$200,000 to \$195,000?

A. The bank may only loan the money that comes in over its counter, and it receives its money on the same basis as the merchant; the banker sells credit, and at this point is losing money while waiting for an increase in deposits, he must get his loan account to a point where his capital will pay a profit.

413 Q. A stringency of money must be felt on the outside because there is a constant surplus of goods of every description pressing for

sale at twice the primary cost, with but half enough money to go round?

A. This temporary stringency is felt at all times in every market, and is constantly relieved by what is really an extension of banking among merchants and manufacturers who sell goods on credit, and thus gain time during which the credit can get into circulation and take up the accounts.

414 Q. With goods selling at a profit, and with people everywhere eager to work and to spend, there seems to be no reason for an interruption in the growth of profit?

A. There is no cause for interruption, but the illustration must go slowly in its beginning, as we are assuming a settled community, and are illustrating conditions which arise only after the settlement has taken place; that is to say, we are limiting banking to mercantile development, leaving capital out of the discussion, because we can not have capital until after bank deposits have first supplied all mercantile demands.

415 Q. You mean, for example, that all building at this point has been done without capital; that the first houses and other improvements are not made to sell, but are for shelter and are

built as simply as possible and with neighborhood assistance?

A. Yes; if you can not follow banking without calling up a picture of the working community, it is necessary at this point to consider capital as being restricted to such structures as have no market value.

416 Q. The banking or money situation is then as follows: \$195,000 is in actual circulation, with \$45,000 in bank deposits, and the contraction of cash of \$5,000 is offset by an inflation of currency in bank checks which may reach \$45,000, or nine dollars expansion in credit for one dollar contraction in cash?

A. The bank-check inflation will proceed very rapidly; the entire cash outstanding is making a continuous profit by being used in installments to pay two dollars for goods costing but one dollar, and as we considered but one \$25,000 of profit, there was to follow into the bank from the cash in circulation other similar profits.

417 Q. Let us get the first installment of checks into circulation, representing \$45,000 of deposits.

A. The bank check is superior to cash in a great many commercial transactions and will displace it under such circumstances?

418 Q. Certainly, bank checks will displace cash if they are superior, but only when both are required.

A. Yes, certainly; if only one form of currency is required the bank check could not circulate, but when given equal conditions the bank check is much more convenient than cash?

419 Q. Because it enables a man to save the trouble of carrying various sums of money about, and saves making change for many payments; a single check may pay one hundred pieces of money of various denominations.

A. Admitting that bank checks will circulate on account of the time they save, the inflation of currency from bank checks is evident, but there is another important gain to be considered, made by speeding up the remaining cash.

420 Q. Do you mean the circulation of checks will speed up the cash and make it perform more work on its own account because cash is relieved of a certain strain by the circulation of bank checks?

A. Yes; with \$45,000 of deposits circulating as money, the checks will first displace the money that has the longest distance to move, and in which the sums to be paid are the most complicated in amount.

421 Q. Then checks would take upon themselves the hardest and most difficult part of circulation, the part requiring the most time?

A. Exactly so, because the check can spare the time on account of not being itself redeemed in labor, but must first be redeemed in money, and this one step away from labor allows a considerable element of time to intervene, during which time the check may not only perform the harder circulation service, but it will relieve money altogether from its hard work.

422 Q. This is of enough importance to be more fully explained; why not do so?

A. The problem is simple enough; the check is known to be payable in cash on demand, and therefore in waiting for cash it meets its opposite check, each of which may cancel the other, and then two new checks may again arise to go over the same ground.

423 Q. Illustrate this point?

A. "A" writes a check to "B," who in turn gives it to "C," who meanwhile has given his check to "A." Hence if equal sums are involved in each check, both will be returned to the point of issue, having passed as money from "A" to "B," from "B" to "C," and back to "A."

424 Q. With this point explained, the new community no doubt would increase its bank deposits very rapidly?

A. Yes; and for the benefit to be derived from simplicity we will confine the deposit account to full units of the entire circulation of two hundred thousand dollars.

425 Q. You mean to jump two hundred thousand dollars at a time in bank statements?

A. Yes; at the time the deposits equal the capital of \$200,000 and the money has returned to circulation, the bank statement would be as follows: Capital, \$200,000; Deposits, \$200,000; Loans, \$400,000; Cash Reserve on Hand, \$20,000, and the bank would have no money to loan, while the cash outside the bank has been reduced in volume from \$200,000 to \$180,000.

426 Q. The contraction in cash becomes an expansion, however, from an increase in deposits, which are now equal to the original volume of money?

A. Yes; the circulation may now be more than twice the sum with which we started, and there is sufficient money in actual use to employ all the labor and buy all the products at twice the primary cost.

427 Q. I gather from this that capital is now

free to enter the field and is sure to find its opportunity and market?

A. Yes; but for fear that a complication may arise later, we will first carry the bank deposit to its ultimate conclusion, since it is self-evident that an expansion of checks which must be offset by a contraction of cash has a very well-defined limit.

428 Q. You illustrate but one doubling of money by bank deposits, which calls for a ten per cent. cash reserve; it is obvious, therefore, if deposits could grow to ten times the volume of cash, there would not be a dollar of cash in circulation, and the men who are to pay labor in cash, or buy goods with cash, or pay loans, would be in a bad situation?

A. As there is a definite and fixed volume of cash in this community depending upon a standard of value for money, so there is also a standard of value for capital which fixes a limit to bank-check circulation.

429 Q. It is self-evident that banking could not acquire all the cash, because a certain proportion will remain in the hands of the people. How is this outstanding proportion determined?

A. The limit in banking credit is determined

by the loanable surplus coming into the bank from outside operations.

430 Q. Pile up your deposit account in the illustration until you reach this limit?

A. When each dollar has been loaned three times the bank statement will be as follows: Loans, \$600,000; Deposits, \$400,000; Reserve, \$60,000; Cash to Loan, Nothing.

431 Q. The money again returns to the bank, piling up deposits to Eight Hundred Thousand, and again goes out by increasing loans to the million mark, leaving a reserve of Eighty Thousand Dollars?

A. Yes; but at this point the rate of growth will be slower, because the bank is approaching its ultimate limit, for when its deposits are five times the volume of cash in circulation, it will discover that the demands from its depositors will take up all the money coming in over the counter and the loan and deposit account will become stationary or decline.

432 Q. Assuming the banker may increase his deposits to five times his capital, what does it signify?

A. It signifies that the volume of money available for banking limits the total volume of deposits. One-half the total volume of cash

is available for banking purposes, and when this half has been loaned ten times, leaving with the bank a ten per cent. cash reserve, the banking money will have disappeared from circulation and will be held in bank reserves.

433 Q. This limit in volume of banking credit seems to conform to your theory of growth, namely, that five credit dollars may attach to each cash dollar doing circulating duty?

A. Yes; but what is most important in this illustration is the fact that the excess of deposits creates a much lower rate of interest upon money than the rate of profit upon capital.

434 Q. How does such a difference between interest and a rate of profit arise?

A. Bankers frequently excuse usury on the ground that a borrower makes twenty-five or more per cent. on a loan at six per cent., and claim this division of profits is unequal.

435 Q. Is it not so?

A. No; the banker uses the same dollar not once, as does the capitalist, but he loans it four or five times, and in so doing he keeps the rate of money down without disturbing the higher rate for capital and gets an equal profit for his own capital.

436 Q. Instead of the banker getting six per cent. income from loaning money, he gets four or five times such rate, provided he pays no interest on deposits?

A. He should pay no interest on deposits, and under proper conditions among a wide field of small depositors, the banker would be safe in charging a fee for providing a check currency.

437 Q. Assume your total deposits are equal to five times the volume of currency, how will this banking credit divide between commerce and capital?

A. Commerce must have at least one-third of the deposit account, leaving two-thirds to capital.

438 Q. But before going into the growth of capital, what happens when the limit in deposit accounts is reached and loans and deposits can no longer expand?

A. When this point is reached the standard of value for capital should complete a circle of circulation and further loans should not be in demand; the demand and supply of banking credit should balance automatically.

439 Q. You mean that loans should then be

paid off in direct ratio to the demand for new loans?

A. Yes; capital should grow and become self-sustaining; the loan paid off should be offset by a share of stock circulating in the capital market, and this release of credit would exactly equal the demands for new credit.

440 Q. Getting the problem down to figures, assume for example that after allowing the cash to aid commerce, and after the bank has Eight Hundred Thousand in loans, of this sum Three Hundred Thousand are short-time commercial loans which are paid and renewed constantly as goods are being consumed and produced, leaving Five Hundred Thousand of banking credit free for the capital market.

A. Your example is a fair statement of the case. What next?

441 Q. This capital fund should also be renewable in the same way as the commercial fund.

A. Why in the same way?

442 Q. Perhaps not necessarily in the same way, but it should be renewable?

A. It must be renewed from the bottom up and not from the top downward. The banking situation now demands the profitable invest-

ment of this credit, so as to make room for the growth of profits from beneath to replace it.

443 Q. You mean this Five Hundred Thousand should be invested in capital stock of profitable enterprises, and the enterprises themselves should furnish their own supplies of credit from their own profits, and by paying dividends they would keep secondary bills of exchange in circulation, representing capital as distinct from banking credit?

A. Assuredly. The banking process circulates the vital force, which must be accompanied by the growth of concrete wealth, just as commercial loans must be paid and renewed by the production and consumption of goods.

444 Q. Hence the Five Hundred Thousand in deposits above the requirements of commerce is expected to represent a fluctuating investment fund?

A. Yes; and this fund opens up unlimited possibilities for the creation of new wealth, for the development of capital and for the increase in wages.

445 Q. The builder now appears by finding locations where his building will sell for more than it cost, locations where buildings will sell at the same level of prices as commodities sell?

A. Yes; and with a growing population, meeting no restrictions to its increase in wealth, the opportunities to locate improvements which will sell for more than they cost will increase faster than the community grows.

446 Q. With the interest on money at no less than half the profit to be derived from capital, it does seem that every requirement in any community for an increase in wealth has been abundantly supplied by nature?

A. When promoters may borrow money at twelve per cent. and make from twenty-five to fifty per cent. in developing natural resources of every description, there should be a tremendous activity.

447 Q. From a banking standpoint where does the interference with this increase in wealth first appear?

A. From the outside market.

448 Q. Do you mean from the capital market?

A. Yes; the failure in the capital market starts the backward movement, which is rapidly communicated to commercial markets.

449 Q. You mean that secondary labor must be continually employed in reproducing capital, in order to make a market for goods?

A. Yes; and capital as well as goods must sell to labor if it sells for cash on demand.

450 Q. Does the same rule apply that capital must sell at twice its primary cost in order to sell to labor, on account of the division among laborers and in order to circulate the required volume of money?

A. Yes.

451 Q. But promoters and capitalists would willingly build at less than twice the cost, and may not prices be shaded if promoters are willing to accept less?

A. Promoters are not ultimate consumers, and a great mistake is made in assuming that prices have a fluctuating standard of value.

452 Q. What do you mean by a fixed standard?

A. I mean an absolute point below which prices may not fall.

453 Q. That point is labor cost, which may be reduced to what a laborer will live upon?

A. On the contrary, the standard is much higher, and when the standard fails it does so by limiting employment, but retains its ultimate price basis.

454 Q. Explain this position?

A. Every price depends upon an exchange, and every exchange depends upon two costs in each supply, which are added together; a surplus of one kind balances a surplus of another kind in every trade, and if this condition is not realized the trade fails, making a minimum scale of prices which is no less than twice the primary cost.

455 Q. Admitting your contention for a minimum scale of price; although the promoter may obtain money at six per cent., he must be able to sell capital to ultimate consumers at twice the primary cost before enough money will reach them with which to buy back their own product?

A. Yes; and what is known as the capitalistic system comes into operation on this account; the shortage in money circulation cuts out the laborer as a buyer, because labor must buy in a cash market. The failure of labor to buy for cash creates the opportunity of the capitalist to buy on time and creates a debt, and he shifts the payment to future labor.

456 Q. Returning to the total bank deposit in our example, we have a divided credit; three hundred thousand goes to merchants' accounts, which is continually renewed by the consumer

of goods, and five hundred thousand dollars goes to capital account, which should be renewed by a rate of profit, and as the rate of profit fails the renewal in credit is replaced by an increase of debt?

A. You state the position correctly.

457 Q. I suppose we are now ready to introduce the buying and selling of land in our example, and demonstrate its interference with this turn over of capital.

A. Having a market wherein every conceivable labor product is selling at a minimum price of twice its primary cost, the builder seeking to acquire capital finds that the land may only be had by purchase.

458 Q. This means, of course, that a part of the five hundred thousand bank deposits are drawn into the land market, leaving money and commercial credit free for the time being?

A. Yes; there can be no contraction of commercial credit or of the volume of money until after a separation occurs between the price of land and other prices.

459 Q. The point now to be considered is that progress in every direction is rushing forward, but is everywhere being opposed by landowners demanding a price for land, which price

substitutes a unit of land for a unit of labor, and prevents credit from becoming money?

A. When the promoter finds a location or natural resource he may improve, and thereby increase the volume of goods or services at a profitable price, he must bargain for land upon which to build, and since he must pay for land in advance, such payment becomes a debt unless the land itself may sustain its own price without labor.

460 Q. The original buyer, however, will get his return from the future profits he reaps?

A. Yes; but the price of the land remains, which price can not sustain a circulation of money and can never have a cash surrender value.

461 Q. You are going too fast. The price of land, as was before explained, enters into the general field of prices by taking a part of the credit price above cost?

A. Yes; and for this reason the damage it inflicts is not apparent, because present labor is not called upon to pay anything it would not otherwise pay, and landowners take something from future labor by preventing present wages from increasing.

462 Q. That is clear to a certain point, but

the future is always becoming the present, and as these future cycles are merged into present time, labor finds its wages remain stationary?

A. This future is a future of reproduction and of greater wealth, and therefore of an enlarged volume of money with which to buy increasing shares of wealth on a cash basis; the future cycles of enlarged volumes of money change into greater cycles of debt by limiting the volume of money to present wages and profits. This shortage in the cash market enables the outsider to buy the wealth on credit on account of the difference between the rate of profit on money and the ordinary rate of profit.

463 Q. The builder may borrow money at twelve per cent. and may sell his building for twice its cost, together with the land. He may therefore bargain with the owner and pay a price for land, depending upon the price he may receive for land and improvement together?

A. Yes; and whatever the difference between the banking rate of interest and the capital rate of profit, the builder is always influenced by his own market, wherein he must sell at a profit.

464 Q. Suppose a building, at a particular location, will sell for four thousand dollars

and will cost but two thousand, then the land owner and builder haggle and trade over this margin?

A. Yes; the builder has a certain amount of capital involved which should return the average capital profit, and he must be paid for the risk he assumes.

465 Q. The builder must pay twice the primary cost for all material entering into construction and must pay the ruling rate of wages, hence the actual cost of the building will include a certain per cent. of retail profits?

A. It is for this reason that the rise in price above cost is not determined by the cost of labor and material consumed, but by a rate of profit to be derived from the building itself.

466 Q. If the building pays for its own maintenance and twelve per cent., it can sell for no more than cost, but if it pays twenty-four per cent. net it may sell for twice the cost?

A. Yes, that is the idea, provided the banking rate is twelve per cent.

467 Q. If the land owner then splits the gain with the builder and gets one thousand dollars for the lot leaving one thousand dollars for the building above cost, there is room for activity in building?

A. Yes; there is room for production as long as there is a margin between the banking rate and the capital rate but production and distribution are separate accounts.

468 Q. What do you mean?

A. I mean that the builder must sell either to labor at twice the cost so as to enable labor to get money with which to buy, or failing, he must sell to the so-called capitalists, who borrow the money with which to buy.

469 Q. As the margin of profit declines and approaches the banking rate, wealth is concentrated instead of its being generally distributed?

A. Yes; the fact that a building at cost must include the profit upon the raw material, will prevent any direct reduction of the standard of wages, but when the rate of profit declines it prevents any increase in the wage standard by holding prices down to costs of production. This limit in profits allows a rise in prices of land to take up the increasing credits, which would otherwise allow wages to rise, while the rate of profit would remain normal, and would circulate the volume of money required for a cash capital market.

470 Q. The price of a building being divided

between land owner and builder, and one thousand dollars being charged as cost for land and three thousand as price of building, how does this split affect the rate of profit?

A. Before the split in profits a building will sell for twice its cost, and the profit to be derived from it must equal twice the bank rate, which we now assume to be twelve per cent., and a building, therefore, costing two thousand dollars must earn a net return of twenty-four per cent., or \$960 per year, to sell at four thousand dollars.

471 Q. The price being split, the land will command one-fourth of this income, or \$240, and the building the remainder?

A. Yes; if access to land is relatively open, and if land is not fully improved and occupied, there would then be a disposition among land owners to sell lots at one thousand dollars each which cost them little or nothing, and of which they had more than the public could use.

472 Q. Then in the early stage of development the rate to the land owner would be on a twenty-four per cent basis, and the price for land would accordingly be held down so that one hundred dollars of land value must return twenty-four dollars of annual income?

A. Yes; and in the case we are considering, the land price at \$1,000 would absorb \$240 of the \$960 income, leaving, for the \$3,000, an income of \$720 a year.

473 Q. At this point there has been no apparent change in the general rate for capital?

A. There has been no particular change affecting the parties directly interested, but the change in the general market has been very great, for an improvement that formerly returned \$960 a year and sold for \$4,000 now returns \$720 a year and sells for \$3,000.

474 Q. You have here no reduction in the rate, but a division of the total profit, while the rate remains stationary?

A. Yes; there must be a standard fixed for land value, and in the beginning this standard of value is the same for land as it is for capital.

475 Q. The loss in price of improvements and gain in price of land must have its first effect on the outside market by limiting the profit of capital, and above such limit land will gain all surplus in prices of every description?

A. The price of land sets a limit to the rate, and all profit above the twenty-four per cent. limit must increase the price of land.

476 Q. Supposing the growth of a city increases profits at central locations so that a building costing ten thousand returns a profit of ten thousand a year, how does the limit in the rate appear in this case?

A. The total selling price on a twenty-five per cent. basis would be four times the annual profit of ten thousand dollars, or \$40,000. The building which cost ten thousand dollars must be conceded a twenty-five per cent. profit, and its market price would become \$12,500, leaving the remainder, \$27,500, as a price for the land.

477 Q. The money to erect the building must be borrowed, and this would give the land owner a tremendous advantage over all other persons when it came to securing money to improve choice locations?

A. Such is the case in the beginning of all development, and it continues so for some time after, but as the rate of profit on capital falls toward the rate of interest on money, this fall in the rate changes the unequal distribution of wealth from land owners to bankers and money lenders.

478 Q. But the land owner who is able to give the very best security on account of the high price of his land, which can not be destroyed or stolen, has every advantage in borrowing

money. He may compel labor to improve his farms, his town and city lots, his mining and manufacturing sites, at cost price, while his land will command prices much greater than the price of the improvements. Land owners thereby accumulate all income property because civilization requires such improvements to be made, and they must be made upon somebody's land who thereby gains the improvements as his property?

A. In a lower order of civilization than our own, the land owner and money lender usually combine and continue supreme, but with new inventions and discoveries constantly coming into existence, large volumes of capital are required to introduce the new order, and the importance of the land owner gives way to the rising prestige of the banker.

479 Q. Where does the banker get into prominence?

A. The banker stands between the circulation of cash and the circulation of credit, and the entire volume of cash will pass through banks many times in dealing out credit. The banker deals in credit like a merchant deals in goods, and his profits are governed by the volume of credit he sells.

480 Q. The banker will have an unlimited

market for credit so long as the rate of profit is four times the rate on money at the bank?

A. Yes; the banker selling credit at a much lower rate than may be secured from capital, will stimulate production wherever the profits of capital are higher than the banking charge.

481 Q. The proposition is clear, and the banker must loan his capital four times at six per cent if he would secure a gross profit equal to twenty-four per cent.?

A. But when the rate for capital declines from twenty-four to twelve per cent., the banker finds his field of profit has enormously expanded, because this decline in the outside rate makes room for a very great expansion of bank credit?

482 Q. Assume the capital rate falls from twenty-four to twelve per cent., where does room for more capital appear?

A. Suppose for example the rate of twenty-four per cent. establishes a standard price for capital at ten billion dollars, and at this price the annual profit paid will be two billion four hundred thousand dollars.

483 Q. If the rate falls from twenty-four to twelve, would not the annual profit decline from two million four hundred thousand at

twenty-four per cent. to one million two hundred thousand dollars at twelve per cent.?

A. No; the annual sum would not change until a much lower rate began to bring about a decline in wealth and civilization, by bringing on a decline in wages.

484 Q. If the annual return remains at two billion four hundred thousand dollars, and capital had a value of ten billion dollars at twenty-four per cent., would a decline in the rate from twenty-four to twelve per cent. be equalized by a rise in capital prices from ten to twenty billion dollars?

A. Yes; and such a rise in price of ten billion dollars is said to be wholly water, since it is not the result of an increase in wealth. The gain of ten billion dollars in price represents a mere change in proportion of capital to commodity prices and a change in the proportion of capital to wages; it amounts to a failure of wages to double as prices of capital have doubled.

485 Q. The rise in price of capital from ten billion to twenty billion dollars can not be sustained unless there is a consequent increase in volume of money?

A. Your proposition is correct, if labor is to buy capital, but if buying is done by going into

debt, the higher range of prices may be sustained for a time by a lower rate of profit. The same volume of money will have an increased duty to perform; profit will circulate slower than before and will take twice as much time.

486 Q. What will be the direct effect of this rise in capital prices from ten to twenty billion dollars and a decline in rate of profit from twenty-four to twelve per cent.?

A. The effect will be to enormously increase the borrowing power of the owners of the higher priced property.

487 Q. Illustrate with the example of the property returning a ten thousand dollar annual income, the improvement price of which was \$12,500, based upon a rate of profit of twenty-five per cent., the remaining three-fourths of the income, \$7,500, giving a land value of \$27,500.

A. The effect in this case would be as follows: The value of the improvement would fall to cost and twelve per cent.; it would fall from a total of \$12,500 to \$11,200, while the price of the land would rise. A \$10,000 income, when divided between land and improvement, would allow the improvement twelve per cent. on a price of \$11,200, or \$1,344 a year, instead of

twenty-five per cent. on \$12,500, which had been \$3,125 a year, and the land owner would receive an income of \$8,656 instead of \$7,500, and the greater income estimated at the lower rate of profit would increase the value of the land from \$27,500 to \$72,000.

488 Q. This puts a different construction upon a fall in the rate of profit than the one now so popular, namely, "the lower the rate the greater the blessing." According to this illustration the fall in the rate is disastrous to industry of every description, and is only beneficial to the speculator, the land owner and the banker?

A. If there was only one lot to be considered, as in our example, the benefit would all be absorbed by the land owner, but as the decline in the rate of profit has the effect of increasing the value of all land, there will be a rush in every direction to put favorable lands to profitable uses with borrowed money.

489 Q. A great many owners of land will not appreciate the advance in price to arise on account of the decline in the rate of profit, and this fact will allow promoters and speculators to reap a rich harvest by improving lands. What change will this make in development?

A. The change will substitute a profit de-

rived from industry for a profit derived from an increase in price of land, which can only occur once, while profits from industry are continually repeated.

490 Q. When the rate of profit falls and permits land to advance greatly in price, this advance in land value becomes the only incentive to improve, and thereby replaces the regular and orderly development of civilization?

A. Yes; and, moreover, when this advance in land value reaches its upper limit, and when the profits derived from real estate have been consumed, all further progress is at an end. For this reason the profit to be gained from a rise in price of land differs radically and fundamentally from the regular profits of industry.

491 Q. You mean that the rise in price of land failing to be accompanied by the required increase in volume of money will soon exhaust all available supplies of credit, including the gains from the rise in price of land.

A. Yes; the rise in price of land replaces a rise in price of improvements, and as the difference between cost and selling price is wiped out, the profit in production is also wiped out and a general failure of demand follows. It is not the land market that suffers alone, but all other markets suffer before they may force a

decline in the price of land and restore a meagre profit.

492 Q. Assuming the rate of profit declines from a twenty-four to a twelve per cent. basis, what is the immediate result?

A. The result is a decline in the selling price of all labor products and a rise of two hundred per cent. on all land which will pay twenty-four per cent. profit. The area of land to command a selling price will be enormously extended, because all income above twelve dollars a year upon each one hundred dollars of value that formerly was credited to capital, now becomes rent for land and sustains the tremendous advance in its price.

493 Q. This rise in price extends the field of security for borrowed money?

A. Yes; the field of debt is extended to more than double the former capacity.

494 Q. But since the lower rate slows down the circulation of capital, where will the increased money for new improvements come from?

A. It will come from a remarkable increase in bank deposits derived from profits made in the real estate market, which have been substituted for the regular profits of capital.

495 Q. This will open up a bankers' paradise by giving him new and practically unlimited opportunities to lend each dollar of cash as often as the laws which govern the circulation of money will permit?

A. Yes; but as this opportunity to lend money increases, it carries its retribution along with it, because the money loaned upon real estate security can never be repaid, and as a result there are continual periods of bankruptcy and hard times when loans must be called to keep the banks themselves from being forced to the wall by demands from the depositors.

496 Q. As the opportunity to profit from a rapid rise in land value offers itself wherever land may be used, the first effect of a decline in the rate would be a lively real estate speculation based upon a rapid increase of building and other improvements?

A. Yes; practically so because bankers have learned from experience that a mere rise in price of land is a very bad security for bank loans, because the price of land can not return money to circulation.

500 Q. How does the banker gain from an inequality in circulation of money?

A. The banker does not gain more from inequality than he would if equality prevailed except as the field of banking narrows and limits the number who may take advantage of misfortune.

501 Q. One may readily understand that banking would expand under equal conditions, and gross profits would greatly increase, whereas under unequal conditions only a few bankers may be so placed in the financial world as to be able to profit from inequality?

A. Remember that the field of profit for the banker expands with the decline of the rate of profit, as long as this decline allows any margin above the banking rate.

502 Q. The banker continues to reap no less than twenty-five per cent. for his capital, while profits in all other lines fall to a much lower level?

A. Yes; the position of the banker is such as to give him a practical monopoly and control of business of every kind. When a single business may extend and pay twice as much profit as any other, it is only a question of time until it will absorb all other wealth.

503 Q. A banker represents not one business, but every business, because trade can not con-

tinue without commercial loans, and when the banking profit exceeds the profit in the mercantile and manufacturing business, it is only a question of time until the banker will get it all.

A. When the time of actual absorption by the money lender is about to take place, civilization will fail because every business will then have passed through a series of bankruptcies, and the last paring down will have been unsuccessful; a general failure in every market will result in universal disaster.

504 Q. How does the banking concentration arise? How do gains accumulate to the banker, while the property is ostensibly owned outside the banking business?

A. This concentration arises from a regular increase in bank loans which can not be paid; and as the rate of profit declines the business expands, while the debts increase. Money itself is made more difficult to obtain as debts grow greater.

505 Q. May not individual failures correct this evil?

A. No; the need for money is felt by all alike, and the stringency of money is not confined to any particular class.

506 Q. But bankers may favor certain individuals?

A. Yes; but rarely in preference to favoring themselves, and the power to loan money to one and refuse a loan to another adds to banking accumulation instead of helping the meritorious, as a rule.

507 Q. The banking power depends upon a contraction of credit from the outside into the loan department of banks, making the control of actual cash much more powerful than it should be?

A. Yes; although cash itself may expand and although the per capita of circulation may increase, yet the power of a dollar is wholly based upon the number of times it may be loaned; but if loans will multiply as fast as new dollars appear, the inflation of the currency can bring no relief.

508 Q. The loan account of the banker represents the ownership and control of nearly all mercantile business?

A. Yes, but less than half, and probably less than one-third the banking power is used in commerce, and the investment banks control a very large share of the fixed wealth of the country.

509 Q. As banks increase their deposit and loan accounts, and as loans can not be paid, the bank would be compelled to buy in the bankrupt business as profits decline. How do banks escape from the demands of their own depositors, who really hold the balance of power?

A. When the volume of deposits contracts, the loans must also be contracted, and we have no means of determining to what extent deposits are free and may be taken from the bank at the will of the depositor.

510 Q. Do you mean that deposits are themselves largely under the control of the banker?

A. Yes, under prevailing conditions.

511 Q. But it is generally conceded that the banker depends upon the millions of depositors rather than upon a few rich men who control great fortunes?

A. It is true that banking even now depends upon depositors who number millions, but loans are not made to this army of small depositors.

512 Q. Loans are made to merchants, manufacturers, builders and speculators?

A. Yes; and the banker who understands his business will usually require the man who car-

ries a loan to also carry an average deposit in proportion to his loan.

513 Q. The banker is blamed for doing so in order to compel a man to pay him interest on his own money?

A. The interest paid would be the same from loans, because the banker pays no interest to his army of small depositors.

514 Q. Then the banker who requires a debtor to maintain an average deposit balance, does so to protect his bank?

A. Yes, because this gives him the quickest of assets, and allows a very rapid contraction of loans by forcing an average reduction all around, and does away with harmful and some time fraudulent discrimination.

515 Q. When bank loans reach their limit and each dollar of cash in the country has been loaned as often as it may be loaned, what results?

A. The first effect is to take advantage of quick assets and curtail the credit of merchants and manufacturers, and this in its turn will react upon the outside market.

516 Q. React on the outside market because the market depends upon borrowed capital?

A. Yes; it is the failure of this investment market that brings about the first stringency of money, and the first relief is found in contracting commercial credit?

517 Q. This seems a rather unjust system of relief?

A. It is not only unjust, but it is also only temporary, and banks would otherwise fail.

518 Q. Do you mean that this stringency of money and contraction of credit may occur during prosperous times, when abundant harvests are selling at profitable prices, and when building operations are in full progress?

A. Yes, because all business requires a constant return of the money spent so as to maintain a given circulation, and when a proportion of such money and credit is being constantly spent for land, it will not only fail to return, but the increase in debt uses up all the profits in business.

519 Q. Do you mean that finally the volume of debt outstanding will absorb all the circulation of money except the part required in the labor market?

A. Yes; if for example the annual profit on twenty billions of capital is twenty-four per

cent., one-fourth of twenty billions should return each year to sustain such prices.

520 Q. Then when new enterprises are put into operation and when old ones are consuming all the available returns at twenty-four per cent., the competition for money begins, which must lower the rate?

A. The natural order would permit each new enterprise to create and take up its own volume of money, and sustain its own prices, and thus return as much profit to circulation as it takes out.

521 Q. But when land is bought and sold the accumulated profits are used to buy land, and the actual return of money is limited by the sale of land to the profits upon goods in the retail market?

A. Yes; the actual return is finally so limited, but not until the decline in the rate of profit shall equal the interest rate for money.

522 Q. Meanwhile from what source do profits gain in volume?

A. They gain from profits in real estate by which men gain wealth outside of the regular channels of business and without earning it.

523 Q. May the profits derived from increase

in price of real estate promote building and improving the same as other profits?

A. Yes; they may do so until the debt limit is reached.

524 Q. You mean until buying by an increase of debts reaches the limit fixed by retail profits on goods at the lowest possible rate of interest?

A. Yes.

525 Q. Would each country in which land is bought and sold be continually reaching its debt limit as it exhausted its annual profit fund at any given rate, and would it go forward again only as this rate declined and as the lower rate allowed the annual profit to sustain a greater volume of debt?

A. Yes; such is the case regardless of the natural opportunities waiting to be developed, and regardless of the idle labor and idle capital anxious and willing to increase the total wealth.

526 Q. Illustrate this check to industry from buying land in the example we were considering of a new community having a city of fifty thousand people, with a surrounding farming territory, having an equal population of farmers and gardeners?

A. The banking position had developed to a point where the following results were ob-

tained: Deposits, \$600,000; Loans, \$800,000; Cash on hand, \$60,000, ten per cent. of deposits; Cash in circulation, \$140,000; Credit in circulation, \$600,000.

527 Q. Assume the total circulation of cash and credit is divided one-third to merchants' accounts paying twelve per cent. and two-thirds to capital account paying twenty-four per cent., and on this basis estimate your standard of value for money and for capital?

A. On a twelve per cent. basis bank loans of \$800,000 would return a profit of about \$100,000 per year on a capital of \$200,000, or fifty per cent. gross, and capital would receive the remainder.

528 Q. What would you call the remainder?

A. The total circulation is \$740,000, which is returning about twenty-four per cent. per annum, which at twenty-four per cent. will establish prices for capital at four times this circulation of \$2,600,000.

529 Q. With \$2,600,000 of property paying twenty-four per cent., wealth could double every four years and accumulate at that rate?

A. Yes, and it does so accumulate, but much of it becomes land value and all future in-

crease above twenty-four per cent. becomes a price for land.

530 Q. The land owners now demand a price for land, and we will assume total prices advance from \$2,600,000 to \$3,000,000, of which sum \$400,000 is land value?

A. In order that land may acquire value, the bank will have a loan account based upon real estate, which can not be paid.

531 Q. Assume that half the loans of \$800,000 are such real estate loans, consequently half the bank credit fails to circulate and a stringency of money is felt, how is this stringency relieved?

A. The bank requires its loans to be renewed every ninety days on an average, and the high rate of interest will cause a rapid change in loans on account of cheaper money from the outside; the bank will be relieved by the debtor shifting loans of ninety days to a mortgage of five years or more.

532 Q. Then your deposit and loan account will be drawn down \$400,000?

A. No; the new money coming in from the outside will lower the rate while it increases the available funds, and the deposits which have been withdrawn are quickly restored.

533 Q. Will this decline in the capital rate from twenty-four to twelve per cent. affect the banking rate of twelve per cent.?

A. Yes; as the returns from capital fall from twenty-four to twelve per cent., the banking rate will follow and fall from twelve to six per cent.

534 Q. This makes room for a great expansion of capital prices?

A. It makes room only for capital at twelve per cent., because land value will absorb all the difference, and where there is no further increase in price of land, all development will stop.

CHAPTER XIV.

THE RISE IN PRICE OF LAND.

535 Q. Explain how development is checked by a rise in price of land?

A. Room for the development of capital consists of the difference between cost and selling price of any improvement made upon land for any purpose.

536 Q. If it is farming land, the improvement would consist of farming operations whereby crops were produced having a higher selling price than the cost price?

A. Yes; and as the price demanded for land approaches or exceeds this limit, all forms of development must be carried on at cost prices and without profit, or labor and capital must remain idle.

537 Q. In a city of fifty thousand inhabitants there are numberless opportunities to create improvements, there being many old buildings which should give way to new and better ones?

A. Yes; every city presents a ragged sky line, owing wholly to the obstruction caused by the price of land. The price of land absorbs all profit above cost in every building. Central

locations which command high rents are intended by nature to be adorned with beautiful and costly buildings suitable to the annual rent.

538 Q. Instead of the center of a city having many beautiful buildings selling for more than they cost, the buildings sell at cost, while the location sells for the profit the building should carry. For this reason a good location with an old building will advance in price until such advance absorbs all the profit that nature allows to the building which is expected to fill the location, and instead of erecting a new building in order to gain the profit, the land owner gets the gain without being required to provide the necessary improvement on the land?

A. A building site in the center of a city has its limit in price fixed by the rent that a suitable building would command, and the good locations will advance in price so as to absorb the profit of the building which should be erected there.

539 Q. Suppose such a site is encumbered with an old building costing fifty thousand, which rents for thirty thousand dollars a year, but would support a building costing a million dollars renting for two hundred thousand dol-

lars a year, what price will the location alone command?

A. After the million dollar building had been provided with its necessary share of the annual income, the land value would absorb the remainder.

540 Q. That is to say, if the building cost one million dollars and would sell for two million on account of its income, the land owner may demand one million dollars for his location by taking the price of the building above cost as a price for the location?

A. Yes, such is the rule, and it accounts for the persistence of the old and dilapidated buildings which now disgrace the best locations in every city in the civilized world, and it demonstrates clearly the remarkable power for evil the landlords are allowed to exercise. They destroy all markets for labor and capital, and they finally destroy the market for their own property.

541 Q. What is now a rise in price of land should become, and otherwise would become, a rise in price of building above cost, and on the whole the landlords would be the gainers from a change which would allow continual crops of profits to be harvested from buildings where

now only a single crop may arise from the increase in the price of land?

A. Yes; the mischief of the present system does not result from the fact that landlords get advanced or unearned profits, but results from the fact that a rise in price of land destroys the continual reproduction of such price.

542 Q. Landlords get a profit from the rise in price of land in advance of any building upon it, and in taking off this advance profit they make it impossible for labor and capital to erect the building?

A. Yes; because this advance profit is intended to encourage building, and when it becomes a price for land it destroys all incentive to build.

543 Q. Capitalists may pay the higher price for land owing to a sudden change in the rate of profit which gives them an advantage over the land owner; there are periods, therefore, when this obstruction to improvement is temporarily overcome; when new and great enterprises are undertaken, but they must even then be undertaken by an increase of indebtedness?

A. Yes; in the modern world there has been rapid advances in progress owing to new inventions and discoveries, which capital alone could

put into use. The level of land value is fixed by the prevailing order; when a new advance in science or industry appears, or when a decline in the rate of profit occurs, the price of land can not advance in all places ahead of this development, because a higher price can only be realized after the new improvements have been established.

544 Q. Hence in building railroads and in erecting great office buildings, theatres and hotels, the price of land does not directly prevent such improvement?

A. It does not directly prevent a few of them, which are necessary to demonstrate the gain, but the moment a great building at any location is made a success, then the advance in adjoining lands absorbs the profit by which other great buildings would repeat the first success.

545 Q. The moment the greater profit comes into existence on account of new advances in science or industry, two direct results are apparent; the first will be an increased power to incur new debts, with which the new development takes place, and the next will be an increased price of land, whereby the new progress will be throttled, leaving a greatly increased debt with a diminishing power to pay?

A. The great office buildings of a city are like tall monuments of empire surrounded by ruins. The high price paid for land creates an abnormal building in order to secure the volume of rents demanded by the increased expenditures.

546 Q. The adjoining land owners will demand an equal price for land, based upon the greater rents realized from the new improvement?

A. Yes; they will demand such prices, but will fail to get them, for the reason that inasmuch as the new sky line is above normal, it should be and will be balanced by vacant spaces adjoining.

547 Q. Do you mean the greater capacity of the higher buildings will rob adjacent grounds of tenants at any rent?

A. Yes; modern development has made the maintenance of great improvements an enormous expense, which may only be undertaken with the required number of tenants, and compensation will be established by an open space surrounding the building.

548 Q. If the land owner is to be robbed of his tenants by demanding a greater price than capital will pay, it seems that nature is thereby

equalizing demands and will restore order out of chaos?

A. On the contrary, the change is one that allows us but a choice between evils; we are forced "to jump out of the frying pan into the fire."

549 Q. What do you mean by this?

A. The land system continues to prevent the circulation of money, and the few spots and strips of right of way which are highly improved by capital, merely represent sporadic gains in conserving the benefits of civilization and of preventing absolute ruin by land owners, but it also delivers labor and capital bound hand and foot into the power of the money lender.

550 Q. You say that the modern gains of industry are sporadic attempts at conservation, but what is to prevent such spores from spreading into adjacent territory?

A. The failure of wages to rise, the failure of profits to return money to circulation, and the ultimate failure to pay even the cost of maintenance in the prevailing system of development.

551 Q. Do you mean that our present system

is one that must involve the country in universal ruin if it is allowed to continue unchecked?

A. Yes; there can be no doubt of the awful calamity which the increase of fixed indebtedness has in store for our civilization. History will repeat itself in our own times, and the universal curse of debt, which has destroyed all former civilizations, may also destroy our own civilization.

552 Q. If the cost of land was eliminated, the price of the improvement only would be considered, and the higher the range of such prices the greater the activity in building?

A. Yes; and because a building requires light and air, the same as a tree in a forest, the value of buildings would govern their construction, instead of being governed by the value of land, and the more valuable the building the greater would be the free space surrounding it.

553 Q. You say that modern development destroys the landlord's power and will slowly bankrupt such of them as depend upon the price of land, because the power of gaining wealth from labor has now fallen into the hands of money lenders. Please explain this point?

A. The obstructive power of the landlord is limited by a natural law fixing a standard of

value for land the same as for capital, namely, by a rate of profit. The price of land limits this rate, and while the rate of profit is declining the price of land and the apparent power of the land owner increase. The price paid for land operates to destroy the cash market for capital by changing credits into debts. This failure of a cash market creates a progressive stringency of money, and as a result of the stringency in money, and of the growth of irredeemable debts, the power of the landlords is finally transferred to the money lender, who alone may employ land and labor.

554 Q. Another question about the stringency of money. You say the stringency of money is always felt in the failure of a cash market for capital, and is in direct proportion to the price land bears to all other prices. Since the price of land can not circulate its own volume of money, it thereby imposes a double duty upon the volume which does circulate, and it may only do so by borrowing this volume of money over and over again?

A. Yes; and the power of the money lender arises from this fact, and from the further fact that his own profit is the last to suffer in the general decline, since he deals in cash, while land owners and capitalists depend upon the circulation of credit payable in cash on de-

mand. If each dollar is loaned five times at half the value of the property, then the control of less than half the money also controls ten times as much wealth as the volume of money.

555 Q. As the price of land advances and assumes a greater and greater share of total prices, the necessity of borrowing money to sustain prices of every description increases, but the banking rate of interest falls in common with the decline in the rate of profit?

A. The banking rate falls, and will finally involve everyone in ruin when it circulates less money than is required to employ labor and maintain capital.

556 Q. The various turns along the path wherein the money lender gains an advantage over the land owner come into existence with changes in the rate of profit to lower levels?

A. Yes; at each change in rate of profit to lower levels, the volume of checks which fail to redeem themselves, and which must be redeemed in cash, increases, giving to each dollar of cash a command over credit it could not otherwise obtain.

557 Q. The first effect of a decline in the rate of profit causes an enormous increase in land value; to cut the rate in half will not only add

two hundred per cent. to existing land values, but it will bring into existence a new and enormously increased territory which was valueless at the higher rate?

A. This first decline is merely plowing the soil with the fiery bulls of speculation for the future benefit of the banker, because it ushers in a period of wild and reckless real estate speculation and introduces an era of cheap and inefficient development.

558 Q. When does the banker turn the tide in his own favor?

A. The higher price for land and the lower rate of profit are coupled to enormous advances in science, and therefore require large volumes of capital upon small areas of land. This condition brings about combinations among industries which may survive the low rate of profit, and not only meet the costs of great enterprises, but furnish profits to bankers which otherwise would become higher prices for land.

559 Q. As the rate declines to low and lower levels, competition sets in and begins the work of destroying civilization on account of the contracted field of industry. This destruction by competition is overcome by the fortunate advances made by science, coupled with the fact that bankers alone possess the power to take

advantage of new conditions and supply the ready money required at low rates of interest?

A. Each period or halt in progress is occasioned by a stringency of money, and although the banking rate of interest declines, the need for money increases; the profits from speculation furnish bank deposits, whereby each dollar is loaned more times as the rate of interest declines, and allows the same profits to bankers to continue, while on the outside the lower rate of profit is destroying one section of the middle class after another and compelling the concentration of vast wealth to financiers.

560 Q. What is the present condition of the money market in the United States?

A. If you will begin your investigation at any point in the past you will discover that bank loans grow only as deposits grow, and that deposits are limited in growth to periods of rising prices.

561 Q. Is a protective tariff and an inflation of the currency defended upon the theory that we advance in wealth only as we increase bank deposits from profitable prices?

A. Yes; but experience demonstrates that prosperity depends almost wholly upon advances in prices of land, which rapidly overtakes

all other profits and as rapidly destroys them by an increase of debts.

562 Q. The curse of our civilization seems to be an increase of irredeemable debts?

A. Yes; every period of hard times and panic is brought about by the increase in bank loans, whereby the cash in circulation is contracted to banks; each dollar is loaned five times, and then no more loans may be made; old loans can not be paid, because the money has been withdrawn from circulation.

563 Q. This retirement of cash to bank reserves will then be followed by a contraction of five times the volume of checks?

A. Yes; such will be the result until a period of bankruptcy follows, which relieves the country of a certain portion of the tight debts, and a part of the cash and credit is thereby released, to be again wound up into new debts and to be again followed by hard times and liquidation.

564 Q. Is there such a contraction of currency to banks at the present time?

A. Yes; the rise in prices of real estate all over the country provided large gains for the fortunate owners, which has greatly expanded bank deposits and has provided funds for a

great expansion of debts, whereby many enterprises were allowed to expand; this expansion of industry created wide markets for labor and commodities at advancing prices.

505 Q. The past ten years of prosperous business has had a false foundation, since it was built upon one wave of improvement without profit, which was followed by a wave of profit in real estate, which again added to new improvements and again made new profits in real estate. The rise in price of land absorbed all the profits the new improvements produced and would otherwise have continued, but we have now used up the gains made by improving and expanding over new lands, and we look in vain for something to start a new season of prosperity?

A. Yes; an examination of banking statistics will disclose a remarkable increase in the number of new banks during ten years, and a remarkable expansion in the volume of cash. In spite of the fact that we now have a greater number of banks, a much greater volume of deposits and a remarkable expansion of cash, the renewal of the circulation of this tremendous volume of cash and credit has come to an end; each new dollar of cash has been loaned more than five times, and the loans have become fixed in higher prices for land and can not

be liquidated except by lower prices and hard times.

566 Q. There are now about fifteen billion dollars of bank deposits and more than three billion dollars of cash in circulation. If land had no selling price, the bank loans would be paid regularly, and in this manner the enormous volume of cash and credit would be kept in regular circulation?

A. Yes; but the present rate of profit does not permit this turnover in circulation, and the stringency of credit is now forcing a decline in prices of every description, which will not only force profits to lower levels, but which must bring about a liquidation of bank and other debts before enough credit may be liberated to move this year's crop and allow the country to exist on a hand-to-mouth basis.

567 Q. You seem to hold that we only advance in wealth by creating new debts; that each advance reaches the limit of debt when all profit above the interest on money is tied up by higher prices for land, and as we reach this debt limit we must stop all progress until liquidation forces a decline first in the profit upon capital and then of the interest upon money?

A. Yes; every period of progress in the United States is marked by periods of hard

times when a new adjustment takes place in the rate of interest and rate of profit, and this lower adjustment increases the debt limit by extending the time of payment into the more distant future.

568 Q. There will come a time when we reach the limit of this extension of debt into future territory, and there will come a time when liquidation will finally have concentrated all our wealth into strong hands. What is the limit of the decline in the rate of interest which ends all further increase in debt and ends all accumulation of wealth except to the few who have been successful in relieving the debtor in past liquidations?

A. The limit is reached in two directions; the first limit is when the price of land prevents general progress in every direction by the cost of land depriving all new development of profit.

569 Q. This first limit would then confine the activity of the country to existing forms of capital, confine all industry to a limited and to a declining market for labor and capital, and what then?

A. When we destroy secondary expansion and cease to circulate secondary profits, we are confined to primary profits derived from the

sale of commodities and utilities, and we force great number of laborers out of employment, who can not again be employed until the entire system is changed.

570 Q. When do we reach the limit and go backward?

A. We go backward the moment the natural profit on goods must be spread over capital in order to maintain a rate for capital equal to the low rate for money.

571 Q. As we keep going backward there must be a decline in prices as the rate of profit declines, instead of the former rise in prices?

A. Yes; when the limit in price of land has been reached and when no more debts may be made, then there will occur a shrinking demand which will limit and contract the total annual profit. The price of land sets a limit at once to the volume of profit, and if it were possible for land, in the beginning, to reach its maximum price, the effect would be to starve the people by their failure to develop natural resources on account of the price demanded for land.

572 Q. The civilized world suffers everywhere from making land private property, and in the United States we seem now to confront a period

of hard times in the near future from which there will be no recovery; times when the men thrown out of work by a failure of demand will remain out of work; when silent furnaces will remain cold, and when empty houses will forever be without tenants?

A. The situation you describe is but the history of civilization repeating itself, because the riddle of the Sphinx, which is the riddle of industry, has not been answered.

573 Q. But with all the preceding explanation of principles, and with all the questioning of the Sphinx, the hard problem remains, to find the way out; to unwind the rope in the illustration of Henry George, where a great bull, which represents Labor, is tethered to a stake, around which he has wound the rope in grazing; on all sides is rich grass, but the bull is a close prisoner, with his head to the ground and his rope holding him down. "How shall we unwind the rope," is the important problem?

CHAPTER XV.

CONCLUSION.

A. It is not alone labor that is tied fast with its rope of opportunity wound around a stake, but capitalists and land owners are also surrounded with untold wealth which they may only employ by unwinding the rope, and they are equally helpless on account of the threatening condition of labor.

574 Q. This dangerous condition of modern civilization and the danger of unequal wealth has everywhere been admitted, and no credit may be gained in this day by anyone who exhibits the festering sores of civilization, and who does not prescribe a sensible remedy?

A. There has been a multitude of remedies already prescribed.

575 Q. Quite true, but they are impossible on their face. We are confronted by conditions which can not be changed by theories, but which must be changed of themselves. We can not go backward and begin a new civilization according to some plausible theory, but we must accept conditions as we find them and make what changes are required by modifying them?

A. Unless the fundamental principles upon which our civilization is based are discovered and applied, we will never know how to change conditions, however unanimous we may be that a radical change is necessary and can not be long delayed.

576 Q. In what particular has the principles so far developed demonstrated the way to unwind the rope, the way to change prevailing conditions?

A. The belief is general that in order to change modern civilization to a higher standard, the mass of the people must be educated to the advantage of the proposed change before it may be successful.

577 Q. What the Socialists call class consciousness must arise among the mass before they will assert their rights or remedy their wrongs?

A. Such is the general opinion among Socialists and others, and the idea prevails that the education of the mass of the people along economic lines is absolutely necessary before any general or important change may be undertaken.

578 Q. Do you dispute such an evident proposition? It seems inconceivable that without

education any great forward movement is possible?

A. This is begging the question. It is true that without education any great change is impossible, but this does not refer to the kind of education the theory of reform suggests.

579 Q. You mean the education of the mass is not essential, but that the few must acquire a correct knowledge before the change may be made successfully?

A. Yes; a very few may succeed in creating marvelous economic changes.

580 Q. How so?

A. The few may inaugurate a change at one place which has such obvious money benefits to themselves and to others that the new opportunity to make money will spread like a prairie fire.

581 Q. For example, mention some such change?

A. The introduction of steam and electricity did not require technical knowledge among the people in order to extend the benefits of such development, but it first met with the violent opposition of the mass.

582 Q. Do you mean that the discovery of

correct economic principles will afford new and great opportunities to make great sums of money for those who put the correct principles in operation?

A. Yes; and such opportunity will not be restricted to introducing new lines of enterprise, but will offer great profits in prevailing enterprises, by having them conform to correct financial and economic laws.

583 Q. Mention a single example?

A. Any new corporation may issue its stock so as to make it redeemable in cash on demand, principal and interest, and it would at once establish the superiority of such an issue.

584 Q. But the present heavy debts and long time bonds of existing corporations could not well be suddenly changed?

A. Each of the great corporations is rapidly being confronted by the danger of their own debt, and by the fact that they will soon be unable to secure the new money they require, and by the further fact that they can not meet new changes demanded by progress, unless they may secure new money from some source.

585 Q. The present disorder in distribution of wealth is a result of long continued abuses, whereby wages have remained stationary, while

wealth has developed in enormous proportion. Money circulates in artificial channels instead of natural ones, and the volume and rate of profit is much too low for the new order to replace the old?

A. In unwinding the rope, it is true we have a short end of rope to begin with in our tight line of debts, but each turn in unwinding will increase the ease with which subsequent lengths of credit may be liberated.

586 Q. Your proposition of unwinding the rope is of this character: we are now bound close by credit being tightly wound around the stake by debts. We suppose it is necessary to pay these debts, and when some of them must be paid on account of all of them destroying the outstanding credit, we have a period of bankruptcy and hard times. You propose to pay them all without any liquidation to speak of, and not only release a small part of credit to circulation, but to release all of it?

A. The new proposition is to secure a path whereby this temporary relief from debt will change to a permanent relief and debt will be abolished without stopping industry, and with great advantage to all concerned.

587 Q. The great evils of debt have always been recognized by every writer on public ques-

tions, but any remedy was forestalled by the apparent necessity of requiring debts to be paid in order to prevent any sacrifice in the time-honored and sacred rights of property, the writers forgetting all the time that debt itself was working a fearful destruction in the sacred rights of property for the mass of mankind?

A. Yes.

588 Q. According to the scheme proposed, the corporation is not to be required to pay its debts, but is to be allowed to make such value perpetual by creating a reserve fund which will be but little more than one year's interest money on the present debt?

A. Yes; that is the manner in which the change proposed will be of great advantage to labor and capital.

589 Q. This no doubt would require government regulation of corporations?

A. Yes; but only to protect the investments of the public. The government could safely guarantee the redemption of capital stock on demand by taking charge of the reserves, and in case of any failure to keep its stock at par the company would at once be operated by a government receiver and its securities held at par and reduced in volume to conform to the established standard of value.

590 Q. In abolishing all but commercial debts, the general and municipal governments should be first to make the change, and to do so would probably require extensive changes in the system of taxation?

A. The new system of taxation has already been put into successful operation in every progressive city in the United States and in many other countries.

591 Q. Do you refer to assessments according to benefits?

A. Yes; the debts of both the general and municipal governments arise wholly on account of defective tax methods. Every government expenditure is a benefit to some property owner by increasing the price of his buildings; to assess the expenses of government upon the property benefited will not only abolish all other forms of taxation, but will provide a cash basis for conducting the government.

592 Q. If a city desires to improve a street, instead of issuing bonds, you would have it issue a corporation stock, which would be a lien upon all the property benefited by the improvement, the same as is now being done with bonds?

A. Yes; except no provision would be made

to retire the stock, because if the stock was retired the benefits derived from the improvement would never become a part of the wage fund, but would permanently add to the value of abutting property, at the expense of labor.

593 Q. You mean to say that streets, sewers and all other forms of permanent improvements need to be represented by liquid capital?

A. Yes, most decidedly, and in such forms as are demanded by the requirements of trade.

594 Q. The issue should be in such denominations of one hundred dollars and its multiples as circumstances would demand?

A. Yes; in order to keep the volume of money and capital equal to the demands of the cash market, it is necessary to have all valuable property represented by its own value in the circulation.

595 Q. Would a part of this capital stock circulate as money?

A. Yes; all currency above fifty dollar denominations should consist of one hundred certificates, bearing interest, so as to draw the required volume of them into circulation.

596 Q. In this manner you would rapidly increase the money in circulation at a uniform

standard of value and in local quantities to fill up local requirements, and would pave the way for a marvelous season of unending prosperity?

A. Once the system obtains general headway, it would gain speed and power constantly, and capital would increase rapidly until the check came from a rise in wages.

597 Q. But with wages rising, profits would rise and would again expand capital?

A. Not necessarily, because the time will come quickly when the volume of capital and the price of capital will reach the limit of price determined by the standard of value, and wages continuing to rise will require the rate of profit to advance.

598 Q. Then the reason we must now conform to existing rates of profit is because the present standard of wages is below the natural standard, and wages can not rise until after we secure the increase in circulation, which a cash market for capital will introduce?

A. Yes, and because we must begin the change under prevailing low rates of profit, governments will have an enormous advantage over other corporations and can not be hampered by them in introducing the new order, but, on the contrary, will be eagerly solicited by them to

be permitted to issue insured stock in place of debts and to have the government supervise their finances.

599 Q. Suppose a railway corporation desired to secure the assistance of the general government in changing its present system to conform to the new regulations, how would the volume of capital be determined? Would a physical valuation of the railway property be required to fix a basis of value for securities?

A. No; the standard of value for capital is not directly determined by what is known as physical value, because of the wide variation between cost and selling price, and the capital to be issued to the public should be governed by a selling price standard without regard to cost, be the cost more or less than the true selling price.

600 Q. Suppose a railway system having now a variety of bonds and stocks in circulation should desire to conform to the uniform system you outline, and issue only two kinds of securities, which are to be guaranteed by the general government at par and interest on demand, how would the capital value be determined in your judgment?

A. The gross receipts is the basis of all payments, either of wages or dividends or liqui-

dating excess capital, and making it conform to a uniform standard of value.

601 Q. The first charge upon gross receipts is for wages and the cost of maintenance, which must be deducted before there is a surplus for capital at any price?

A. Yes; the past experience of railways, for example, under good management, will prove that sixty per cent. of the gross receipts is required for current accounts and forty per cent. may be set aside as the income for capital account.

602 Q. The railway seeking to take advantage of the new system offers no other balance sheet to the government than an accurate statement of its average gross receipts for a ten year period, for example, together with its expenses?

A. Such would be sufficient, and if its average gross earnings were ten million dollars per year, of which forty per cent. would be allotted to capital account, its selling value would be easily estimated.

603 Q. In such case four million dollars a year would apply to capital, and the total issue of a standard six per cent. security would fix the value of the railway at about sixty-five mil-

lion dollars, and five per cent. of this sum must be set aside for the reserve or insurance fund?

A. If the rate of interest was six per cent. the reserve must be maintained at five per cent. above interest accumulations, and eight per cent. would probably be required in this case, allowing six months' interest in advance to be held in the reserve fund in addition to the five per cent.

604 Q. In such case the government would exercise a trustee's supervision over the finances of each corporation, as is done by corporation bankers?

A. Yes.

605 Q. Could the government debt be eliminated in the same way?

A. Yes; the government should replace its debt with national stock at a uniform rate also at a rate higher than the prevailing one, and make the exchange for its present debt, and stop interest on the original debt after opportunity to exchange securities had been given.

606 Q. In each municipality the issue of corporation stock would bring about the much to be desired local supply of capital held to a local circulation?

A. Yes.

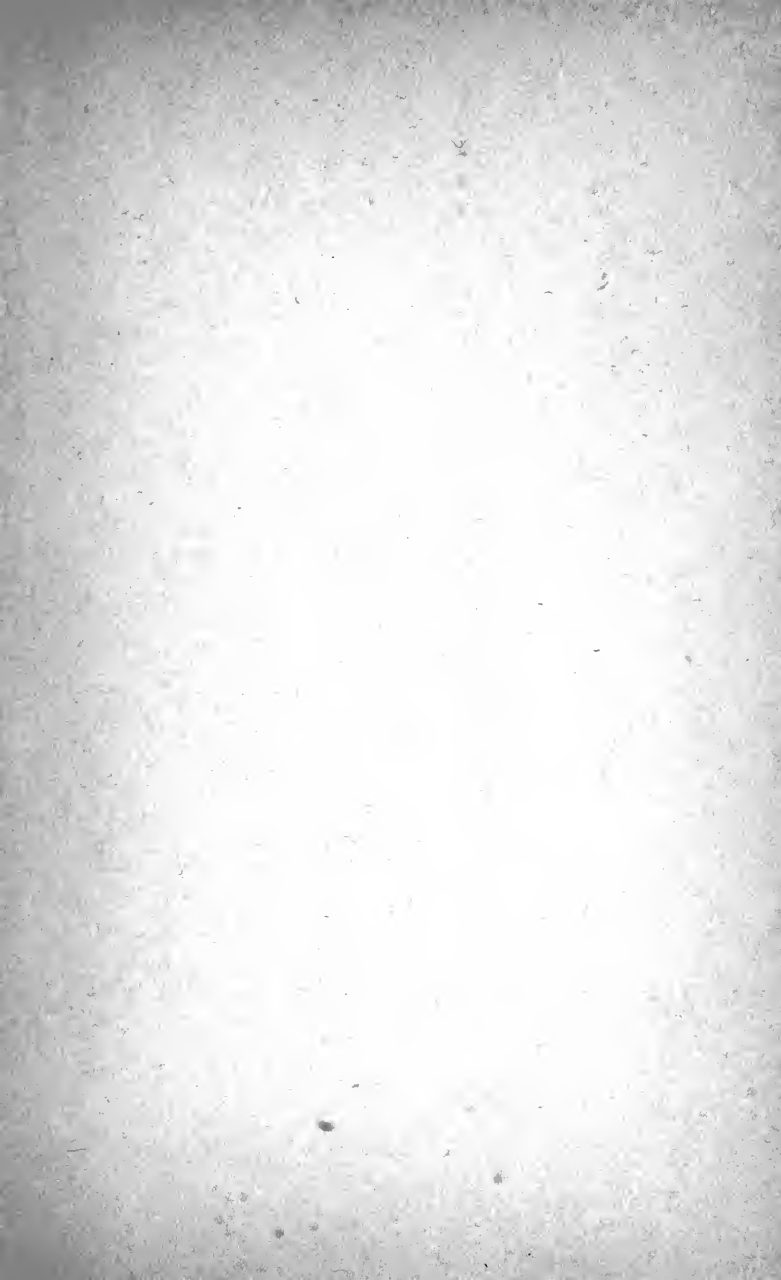
607 Q. The tax system must necessarily change by an extension of the present system of assessments according to benefits until it includes all manner of taxation, national, state and municipal, in order to maintain the various departments of government on a cash value basis?

A. Yes.

608 Q. And all that is at present required to revolutionize the distribution of wealth is for governments to open the way; to change their own debts into credits, and offer opportunity and assistance to other corporations to follow their example?

A. That is all.

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